

*City of Federal Way, Washington*

**COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT**

*Year Ended December 31, 2004*



**FEDERAL WAY AND CELEBRATION PARK**

*Photo By: Michael Oeschle*

*Prepared by*  
**Finance Department**

## *~City of Federal Way History~*

The earliest recorded accounts of the Federal Way area tell of Native American families who resided in the area of the Muckleshoot Reservation on the east side of the Green River Valley and traveled west to the shores of Puget Sound for the plentiful fisheries resources. Generations of Muckleshoot Indians wore a westward trail across the heavily forested plateau to the area which is now Saltwater State Park. The arrival of the white man in the nineteenth century resulted in a steady decline in the Indian population and by 1890, nearly the entire population had disappeared from the area. Isolated on a triangular shaped plateau rising steeply from Puget Sound, the Federal Way area had little waterfront access or roadways and accordingly, was sparingly developed compared to Tacoma and Seattle. As late as the turn of the century, the original settlers at Dash Point and Dumas Bay had to row to Tacoma for supplies and mail. Old Military Road, constructed around 1856 and extending north from Fort Steilacoom, past Star Lake to Seattle and Fort Lawton, was the first road through the area.

Over time, narrow dirt roads were added to provide east/west access and by 1900, a road was constructed between Star Lake and Redondo. The second crossroad, the "Seattle Road," connected old Military Road and Kent. The Seattle-Tacoma Interurban Line, completed in 1901, provided a fast and easy way to reach these urban cities. Improved access brought many visitors to the area and Star Lake became a popular summer recreation site.

By the 1920s, Federal Highway 99, the interstate that linked the western states from north to south, was complete. At this time, Federal Way was still primarily forest and farmland. Fred Hoyt had a cabin on Dumas Bay and started a road to Tacoma (still called Hoyt Road). The timber companies, which had a major logging operation going, built an early railroad line and were instrumental in getting Marine View Highway (now Dash Point Road) built in the early 1920s. This roadway spurred development along the coastline. Soon thereafter, Peasley Canyon Road was built to connect Military Road with the Auburn Valley. This road later became known as South 320th Street. In these early days, roadways set the stage for development in the area and they still play an important role in the City today.

By the start of World War II, a number of small, thriving communities made up the area that is now Federal Way. Some communities were clustered around lakes, such as Steel Lake, Star Lake, and Lake Geneva. Others were sited to take advantage of the view of Puget Sound, like Adelaide and Buenna. As each of these communities grew, residents built small schoolhouses for their children. By the late 1940s, King County consolidated the many individual red schoolhouses into the Federal Way School District, from which the City gets its name. During this same period, a library was built along the edge of Highway 99, and between 308<sup>th</sup> Street and 320th Street, a small "downtown" developed with a general store, lumber yard, realty office, beauty parlor, feed store, and gas station. By the end of the 1950s, the ten blocks between 308th and 320th Streets became the first roadside commercial district. One of the more unique developments was Santa Faire, a family oriented theme park. New shopping areas were added around the park, helping to create a "community focus" for the residents of the area.

As this commercial area developed, the rest of Federal Way was changing as well. The Boeing Company expanded their operations in Renton and the Kent Valley and began advertising nationally for engineers. Those engineers in turn began roaming the wooded acreage in Federal Way in search of housing. One of the earliest residential developments was Marine Hills, built in 1958 overlooking Puget Sound. Weyerhaeuser, one of the early timber companies, had large land holdings in the area and began to develop their land into high quality housing with amenities like golf courses.

Weyerhaeuser's development company also began developing commercial property, creating the West Campus business park. The plan was to integrate offices and businesses with lush landscaping. Though initially the corporate office market was not strong, West Campus has grown almost to capacity, providing space for many civic buildings such as City Hall, the police station, the area's major health care centers, and higher density housing.

Another major landmark in the area is SeaTac Mall, built in the mid-1970s on what was farmland south of 320th Street. The Mall is one of the largest in South King County and is the anchor for retail development in the area. The Mall was a result of population growth in the region and its location was determined by the 320th Street intersection with Interstate 5. The Interstate supplanted Highway 99 as the main artery for commuter traffic in the County.

By the mid 1980s, South King County was growing quickly. Retail growth occurred along Highway 99, especially at the 320th Street intersection. Roads and office space were developed to accommodate the increased growth. Residential growth was also prominent, following plans developed by King County, with a large number of apartment homes. The changes to the community, with increased housing and traffic, created a movement for greater self-determination. In 1989, the citizens of this area voted for incorporation and the City of Federal Way was born, incorporating on February 28, 1990.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended December 31, 2004**

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June 30, 2005

People of the City of Federal Way  
Honorable Mayor and City Council

**THE COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE  
CITY OF FEDERAL WAY**

The Comprehensive Annual Financial Report (CAFR) of the City of Federal Way for the year ended December 31, 2004 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

**FINANCIAL REPORTING STANDARDS AND FORMAT**

This CAFR is presented for the second time in conformity with Governmental Accounting Standards Board (GASB) Statement 34. This statement dramatically modified the presentation of financial information for the City of Federal Way effective with financial statements ending December 31, 2004. The format and purpose of these changes are addressed in more detail in the Management's Discussion and Analysis (MD&A). Additionally, the notes to the financial statements are designed to discuss the change and explain the effects and results of these changes. We believe this new presentation will provide better information to the users of the CAFR.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of officials. The financial section includes the basic financial statements, and the combining statements of nonmajor funds, internal service funds, and schedules of capital assets of governmental funds, as well as the State Auditor's report on the basic financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

As an aid to the reader, the major sections of this report have been segregated by divider pages which provide introductions to the sections. In the same manner, divider pages have been used to separate the various components of the financial section. Generally Accepted Accounting Principles (GAAP) require that management provide narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This transmittal letter is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the Independent Auditor's Report.

## REPORTING ENTITY

The City is a noncharter Optional Code City with a Council-Manager form of government. The City Council consists of seven council members, all of whom are elected at large by citizens of Federal Way to serve four-year terms. The City Manager, who serves as the chief executive officer, is responsible for day-to-day administration of personnel, policies and programs. He is appointed by, reports directly to, and serves at the pleasure of the City Council.

City services provided include: police protection, construction and maintenance of streets, building inspection, municipal court services, jail services, planning and zoning, park services, surface water management and general administration, including finance. Services for a land use hearing examiner are contracted. The City continues to have seven major departments consisting of City Manager; Law; Management Services; Parks, Recreation, and Cultural Services; Public Safety; Public Works; and Community Development. Fire protection and emergency medical services are provided by Fire District No. 39. The Lakehaven Utility District delivers water and sewer services. Metro provides public transportation services. Public housing services are the primary focus of the King County Housing Authority. The King County Library System engages City residents through its library and reference services. School District No. 210 offers educational programs for kindergarten through high school students, in addition to vocational training.

## FACTORS AFFECTING FINANCIAL CONDITION

The Puget Sound Region which was hit particularly hard by the high tech downturn and cutbacks at Boeing caused by the plunge in air travel following the September 11 terrorist attacks, has endured a much deeper and longer recession than most of the country. However, the region has finally begun to recover in 2004, in part due to a turnaround at Boeing. Boeing, which reduced its Washington employment by 27,200 between September 2001 and June 2004, has added 2,400 jobs between June 2004 and December 2004.

The region lost 96,600 jobs or 6.8% of its employment, during the downturn, of that manufacturing sector accounted for 41,900 (43.4%) of the lost jobs. Since September 2003, employment has rebounded in construction, wholesale trade, and service industries, the region has added 32,500 jobs, recouping one-third of its loss.

Local economists are generally upbeat about the prospects for the region's economy now that the national expansion has strengthened and Boeing has begun to hire. In addition, the state's software sector is expected to expand its employment by 5% per year according to the Washington Office of the Forecast Council, and the weaker of U.S. dollar will boost exports and help to attract foreign tourists.

The Puget Sound Economic Forecaster expects the region's employment to increase by 2.6% in 2005, personal income is forecasted to grow at a healthy pace, and inflation is expected to accelerate but remain under control. One component of the economy that is expected to slow is the housing market, which will face rising mortgage rates in the coming years.

## ECONOMIC TRENDS

Federal Way is the seventh largest city in Washington State with a population of 85,800 as of January 14, 2005, including 2,700 added from newly annexed area of Redondo East, North Lake, and Parkway. The City is located on a plateau adjacent to Puget Sound in King County, eight miles north of downtown Tacoma and 25 miles south of downtown Seattle. The City occupies approximately 22.5 square miles, including the annexed area, and is served by Interstate 5 and state highways 99 and 509.

In 2004 there were 34,559 housing units in Federal Way. Of these units, 55% were single family, 41% multi-family units and 4% mobile homes and trailers. These statistics for housing units show an increase of approximately .01% over 2004.

The community is residential and commercial, with the populace employed locally and in the neighboring cities such as SeaTac, Kent, Tacoma, Bellevue, and Seattle. Employment in Federal Way is highly concentrated in retail and services sectors which respond primarily to the needs of the local market area population. The employment figure for 2004 is estimated at 29,600. Major employers are The Commons Mall, Federal Way School District, Weyerhaeuser, St. Francis Community Hospital, Enchanted Parks, U.S. Postal Bulk Mail Center and World Vision.

Sales tax collected in 2004 total \$10.54 million, slightly above 2003. The retail sector of the local economy is anchored by The Commons regional mall including Target, Best Buys, Wal-Mart, Costco, Fred Meyer, Lowe's Home Improvement Center, and many other small businesses adjacent to the City center. According to a listing of businesses registered with the City of Federal Way and sorted by the Standard Industrial Classification, the business economy appears to be configured as follows: retail trade 64.7%; services 12.9%; contracting 9.9%; wholesale trade 4.8%; transportation and public utilities 4.1%; manufacturing 1.0%; government 0.3%; finance, insurance and real estate 1.5%, and other .8%.

In 2004, new improvements to real estate totaled \$147.2 million or approximately 2.3% of the City's assessed valuation. The total assessed value of taxable property in Federal Way was \$6.5 billion which is approximately 3.2% higher than the 2003 assessed valuation of \$6.3 billion. Real Estate sales increased 7% to approximately \$611.5 million in 2004 as compared to \$570.3 million in 2003. A total of 624 building permits and 1,958 other building related permits were issued in 2004. Estimated valuation was \$64.5 million and \$2.5 million, respectively. Significant building permits include: Federal Way Transit Center. Target at the Commons, Maplewood II Development, Walgreen Drug Store, and the Christian Faith Center.

#### **MAJOR INITIATIVES AND ACCOMPLISHMENTS**

Council approved the redesign of the community center to stay within the \$20 million budget. This facility will provide recreational opportunities for everyone: lap and leisure pools, a three-bay gym with elevated jogging track, sub-dividable community rooms, classroom, fitness area, senior area, and other amenities.

City staff moved into the recently purchased and extensively renovated Paragon building. Public Safety and the Municipal Court moved in early in the year with the rest of the City staff following in late August of 2004.

A number of capital improvements were made to our main streets and highways, making them a more attractive place to do business. In 2004, Phase II from South 324<sup>th</sup> to 340<sup>th</sup> is winding down. While, Phase III of Pacific Highway South improvements from South 284<sup>th</sup> Street to State Route 509 is well under way. Finished the Weyerhaeuser round-about. Banners, baskets, and holiday lights were also hung from lampposts along Pacific Highway and South 320<sup>th</sup> during the holiday season.

A major component of the comprehensive plan is the creation of a vibrant downtown area. The city is currently working the master environment review of the area, which when completed will save developer's time and cost. A consultant was hired to review preliminary traffic impacts, and a new system was created to market the community to potential developers. A new economic development website was launched, containing a database of available properties in the city.

During 2004 the eligible City voters decided whether or not to annex three areas known as; Redondo East, North Lake, and The Parkway to be include in the City limits. The bid was successful and took effect on January 1<sup>st</sup> 2005. This has increased the population by 2,730 bringing the total to 85,800 for the City of Federal Way.

The City's Lodging Tax Advisory Committee worked with an event consultant to explore ways of growing tourism. So far a new brochure on Federal Way attractions was created, and the Reebok Women's Triathlon took place in the fall of 2004 and was very well received. In addition the 1<sup>st</sup> annual Korean sports and cultural event called the Han Woo-Ri festival is planned to take place in late spring 2005.

## FINANCIAL INFORMATION

The City of Federal Way is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the evaluation of relative costs and benefits of the control system requires estimates and judgments by management.

### Single Audit

As a recipient of federal, state and county financial assistance, the City is responsible for maintaining an adequate internal control structure to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the State Auditor's Office.

As part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations. The results of the City's single audit for the year ended December 31, 2004 indicated that there were no material weaknesses in the internal control structure.

### Budgetary Control

The City maintains budgetary controls in accordance with the Revised Code of Washington (RCW 35A.33). The objectives of these budgetary controls are to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, some Special Revenue Funds, and Debt Service Fund are included in the annual appropriated budget. The level of budgetary control at which expenditures cannot legally exceed the appropriated amount is established at the individual fund level. The project-length based Special Revenue Funds, and the Capital Projects, Enterprise and Internal Service funds are management budgets only and therefore these budgets are not represented in the CAFR. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All appropriations lapse at year-end.

### Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the current period. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred.

All proprietary funds use the accrual basis of accounting. Under the accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received.

### Cash Management

The City began investing outside the State Investment Pool in November 1994. Based on an adopted investment policy the City operates a conservative cash management program, investing surplus cash as determined by anticipated cash flow needs. Investment decisions are based on established investment policies in compliance with Washington State statutes, with consideration given first to safety, secondly to liquidity, and lastly to yield. The City's portfolio at December 31, 2004 consisted of investments in U.S.



Government Agency securities, Washington State Investment Pool, and Municipal Investment Account, with maturities ranging from one day to 2 and ¾ years.

Safeguarding assets is of primary concern for the City. Pursuant to the Governmental Accounting Standards Board (GASB) statement #3, the City provides detailed disclosure regarding the risk associated with deposits and investments held by the City. GASB statement #3 established a categorization of investments and deposits based on risk. Category 1 includes investments that are either insured, registered, or held by the City or its agent in the City of Federal Way's name; category 2 includes uninsured and unregistered investments held by the counter party's trust department or agent in the City's name; and category 3 includes uninsured and unregistered investments held in the counter party's trust department or agent, but not in the City's name. This categorization is included in note 4 of the basic financial statements. In order to assure the highest degree of safety on all City investments, a safekeeping agreement was established for all securities purchased by the City prior to implementing our in-house investment program during 1994.

The Washington State Treasurer manages a State Investment Pool for use by any city, county, town, municipal corporation, or special taxing district within the state. Municipalities determine the amount and length of investment in the pool based on individual cash flow needs. Interest is earned on the pool's actual experience for the month, less an administrative fee equivalent to 3½ basis points (.035%). At December 31, 2004, the City had \$31,699,452 invested in the State Investment Pool. In 2004, the average monthly earnings rate for the entire portfolio was approximately 2.16% as compared to the average monthly earnings rate for the State Investment Pool of 2.07%.

### **Risk Management**

The City maintains insurance against most normal hazards except for unemployment insurance, for which it has elected to become fully self-insured. Related premiums received by the Risk Management Fund are used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability.

Through its Risk Management Fund, the City is also recovering insurance premium costs for general liability coverage and building reserves for a future general liability self-insurance program. During 2004, the City purchased commercial insurance policies from commercial insurers. It is the opinion of the City's legal staff that at year-end there were no outstanding claims that met expenditure accrual or loss disclosure criteria.

The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards, and survivor benefits.

### **Independent Audit**

State law requires an annual audit of all City books of account, financial records, and transactions by the State Auditor, an independently elected state official. In addition to meeting the requirements set forth under state law, the audit was also designed to meet the requirements of the federal Single Audit Act of 1984 and related OMB Circular A-133. The 2004 audit of the City has been completed in conformance with generally accepted auditing standards. The financial statements of all City funds have been included in this audit. The City has been given an unqualified opinion for 2004. The State Auditor's report on the basic financial statements is included in the financial section of this report.

### **AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Federal Way for its comprehensive annual financial report (CAFR) for the year ended December 31, 2003. The Certificate of

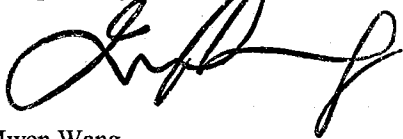
Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. The City of Federal Way has received a Certificate of Achievement for the last fourteen years (fiscal years ended 1990 – 2003). We believe that our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

The City of Federal Way also received the Government Finance Officers Association Distinguished Budget Presentation Award for its biennial budget for the years beginning January 1, 2003 and 2004 and has submitted for its 2005/06 biennial budget. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, a financial plan, an operations guide, and a communications medium.

#### ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. Very special thanks are due to Mark Turley, Senior Financial Analyst, Minh Truong, Financial Analyst, and Jeri-lynn Clark, Accounting Technician. In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information which accompany each audit. The role of the State Auditor's Office should also be acknowledged as a significant contribution to a fine product. Finally, we wish to express our appreciation to the Mayor and City Council for their ongoing support and for providing the firm foundation for the pursuit of excellence in all realms of professional endeavors.

Respectfully submitted,



Iwen Wang  
Management Services Director



Tho Kraus  
Finance Manager

## CITY OFFICIALS



**DEAN MCCOLGAN**  
Mayor



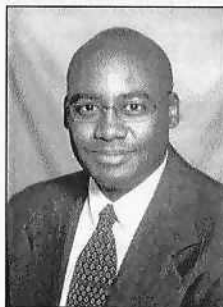
**LINDA KOCHMAR**  
Deputy Mayor



**JEANNE BURBIDGE**  
Councilmember



**JACK DOVEY**  
Councilmember



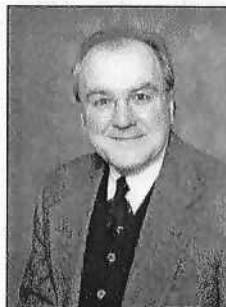
**ERIC FAISON**  
Councilmember



**JIM FERRELL**  
Councilmember



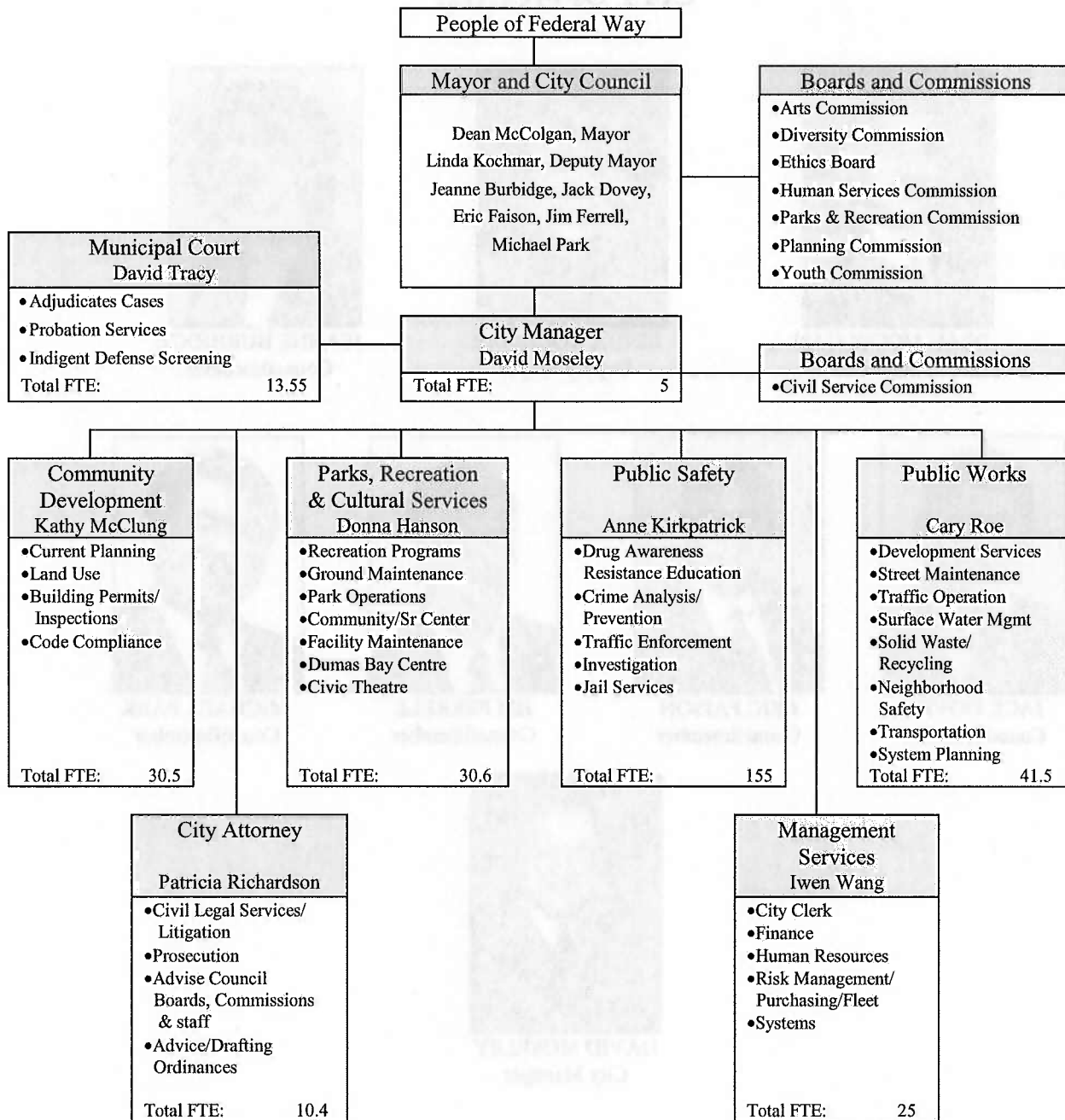
**MICHAEL PARK**  
Councilmember



**DAVID MOSELEY**  
City Manager

## OTHER ADMINISTRATIVE OFFICERS

City Attorney.....	Patricia Richardson
City Clerk.....	Chris Green
Community Development Director .....	Kathy McClung
Management Services Director .....	Iwen Wang
Parks, Recreation and Cultural Services Director .....	Donna Hanson
Public Safety Director.....	Anne Kirkpatrick
Public Works Director .....	Cary Roe



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Federal Way,  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Federal Way for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2003. This was the fourteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.



*Nancy L. Ziehl*

President

*Jeffrey R. Emery*

Executive Director





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**Washington State Auditor**  
**Brian Sonntag**

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**INDEPENDENT AUDITOR'S REPORT**

June 23, 2005

Council  
City of Federal Way  
Federal Way, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Federal Way, King County, Washington, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Federal Way, as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Major Special Revenue Funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 7 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying information listed as combining financial statements and supplemental information on pages 61 through 74 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining financial statements and supplemental information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR







## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Federal Way's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2004. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Federal Way exceeded its liabilities at December 31, 2004 by \$158.0 million. Capital Assets (net of depreciation and related debt) account for 65% of this amount with a value of \$102.4 million. Of the remaining net assets \$18.1 million or 12% may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net assets increased by \$13.8 million, or 10% in 2004. Governmental activities provided \$12.3 million or 90% with the remainder being provided by the business-type activities.
- Governmental fund balances at year-end were \$40.1 million, a 12% decrease over the prior year. Of this amount, a total of \$36.9 million, or 92% of the governmental fund balance is unreserved and available to fund ongoing activities. The remaining \$3.2 million is earmarked for debt service, paths & trails reserve, hotel/motel lodging tax, police special funds, petty cash/change funds, and advance travel.
- Unreserved fund balance in the general fund was \$2.6 million, a decrease of \$4.9 million or 65% from the prior year.
- The City debt decreased by \$4.1 million during the current fiscal year. General obligation debt decreased by \$3.9 million while public works trust fund loan decreased by \$200 thousand. The decreases reflect the annual debt service payments.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Federal Way's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report.

#### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Federal Way's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Federal Way's assets and liabilities, with the difference between the two reported as *net assets*. This statement serves a purpose similar to that of a balance sheet in private business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Federal Way that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other

functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Federal Way include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management and the control and operation of Dumas Bay Centre, a multi-use facility that offers business and retreat accommodations, recreation and cultural arts classes and a performing arts facility.

The City has no separately identified component units included in the government-wide financial statements. The City has reported its investment in one governmental joint venture; Valley Communications Center. A description of this joint venture is found in note 14 of the notes to the financial statements.

The government-wide financial statements can be found immediately following this MD&A.

### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general funds, special revenue funds, and proprietary funds. A fund is a specific fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restriction or limitations. The City of Federal Way uses funds accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions as are reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Federal Way maintains fifteen individual governmental funds. The City's six major governmental funds, the general fund, street fund, utility tax fund, debt service fund, city facilities fund, and the transportation fund, are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled nonmajor governmental funds. Individual fund data for each of the nonmajor governmental funds can be found in combining statements later on in this report.

The City maintains control over its operating funds through the adoption of the biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the General, Street and Utility Tax Fund as a basic financial statement.

The basic governmental fund financial statements can be found on pages after the government-wide statements of this report.

### Proprietary Funds

The City of Federal Way maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its surface water management and control and the Dumas Bay Centre. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management and self-insurance program, information systems, mail and duplication services, fleet of vehicles and motorized equipment, and facilities management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Surface Water Management fund and for the Dumas Bay Centre. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements for nonmajor governmental funds, internal service funds, and capital assets of governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

The statement of net assets can serve as a useful indicator of the City's financial position. The City of Federal Way's net assets at December 31, 2004 total \$144.0 million, excluding existing transportation infrastructure assets which are not reported in this financial report. The following is a condensed version of the government-wide statement of net assets.

#### CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 56,193,460	\$60,909,297	\$ 7,619,913	\$ 8,301,667	\$ 63,813,373	\$ 69,210,964
Capital assets and CIP, net of accumulated depreciation	89,459,264	75,360,095	44,039,690	42,046,043	133,498,954	117,406,138
Total assets	145,652,724	136,269,392	51,659,603	50,347,710	197,312,327	186,617,102
Long-term liabilities	30,802,892	34,730,517	2,304,190	2,486,549	33,107,082	37,217,066
Other liabilities	5,855,245	4,884,188	566,820	492,790	6,422,065	5,376,978
Total liabilities	36,658,137	39,614,705	2,871,010	2,979,339	39,529,147	42,594,044
Net assets:						
Invested in capital assets, net or related debt	60,679,663	43,162,298	41,735,500	39,559,494	102,415,163	82,721,792
Restricted	37,262,541	37,806,176	20,289	14,148	37,282,830	37,820,324
Unrestricted	11,052,383	15,686,213	7,032,804	7,794,729	18,085,187	23,480,942
Total net assets	\$108,994,587	\$96,654,687	\$48,788,593	\$47,368,371	\$ 157,783,180	\$ 144,023,058

The largest component of the City's net assets, 65% or \$102.4 million, in its investment in capital assets net any related outstanding debt issued to acquire those assets. These capital assets such as streets, trails,

parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. The City has not elected the GASB 34 reporting option to include all general infrastructure of the City acquired or substantially renovated since 1990. Only general infrastructure acquired since 2003 is reported. An analysis and valuation of general infrastructure acquired or substantially renovated since 1990 is underway.

Approximately 21% or \$32.5 million of the total net assets of the city are earmarked for construction projects such as a community centre, new City Hall, improvements to SR99, acquisition of additional city parks, renovation and improvements to Historical Cabins park, neighborhood parks, and Sacajawea sportsfield. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the City that impact the transportation system.

The remaining balance of restricted net assets is divided among restrictions for: debt service prefunding \$2.8 million; \$431K for police special funds, petty cash/change funds and advance travel; \$175 thousand hotel/motel lodging tax; \$5 thousand for paths and trails; and \$1.4 million customer deposits. The business-type activities portion of \$8.9 million may only be spent on surface water management activities and the remaining \$232 thousand on improvements to Dumas Bay Centre and Knutzen Family Theatre. Maintenance of catch basins, pump stations, storm drain flushing, and other capital construction projects such as West Branch Lakota Creek Restoration are examples of utility activities. Other functions of the City may access the remaining \$29.0 million to meet ongoing obligation to citizens and creditors. Examples of other City obligations which these net assets may be used for are public safety, parks maintenance, and ongoing street maintenance.

At the end of the fiscal year, the City of Federal Way reported positive balances in all three categories of net assets, for the government as a whole, as well as for the separate governmental and business-type activities.

#### **Changes in Net Assets**

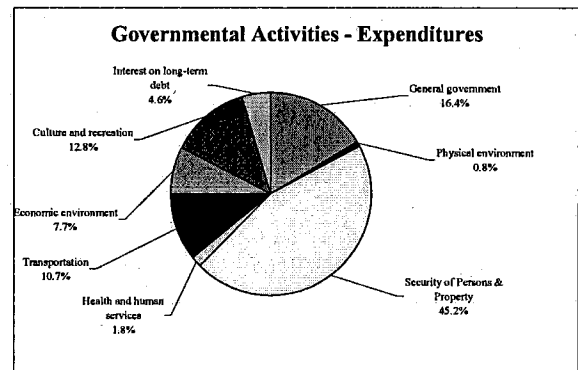
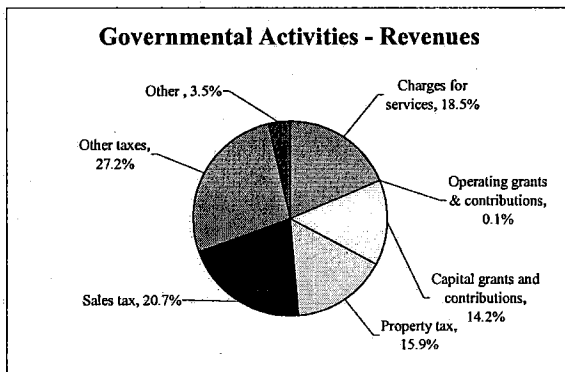
The changes in net assets table illustrates the increases or decreases in net assets of the City resulting from its operating activities. The City's net assets increased approximately \$13.8 million in 2004. The increase was split between the governmental activities (\$12.3 million or 90%) and business-type activities (\$1.4 million or 10%).

The following is a condensed version of the City's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

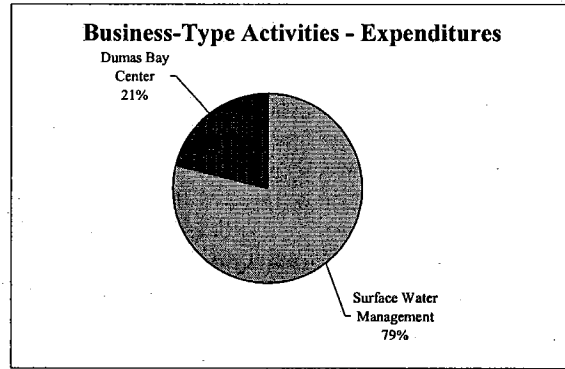
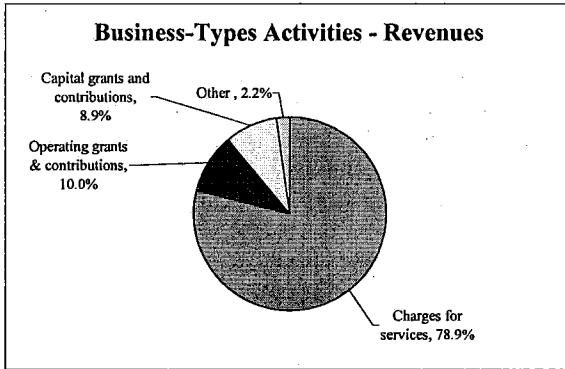
CHANGES IN NET ASSETS RESULTING FROM CHANGES IN REVENUES AND EXPENSES

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 9,413,965	\$ 8,418,528	\$ 4,249,020	\$ 4,041,063	\$ 13,662,985	\$ 12,459,591
Operating grants & contributions	32,415	360,000	535,645	168,555	568,060	528,555
Capital grants and contributions	7,214,776	10,069,756	478,030	757,578	7,692,806	10,827,334
General revenues:						
Property tax	8,121,088	8,200,955	-	-	8,121,088	8,200,955
Sales tax	10,546,218	10,547,534	-	-	10,546,218	10,547,534
Other taxes	13,842,322	13,522,836	-	-	13,842,322	13,522,836
Other	1,761,036	2,119,120	116,634	141,980	1,877,670	2,261,100
Total Revenue	50,931,820	53,238,729	5,379,329	5,109,176	56,311,149	58,347,905
<b>Expenses:</b>						
General government	6,304,256	5,601,311	-	-	6,304,256	5,601,311
Security of Persons & Property	17,374,845	15,597,612	-	-	17,374,845	15,597,612
Transportation	4,098,790	5,389,975	-	-	4,098,790	5,389,975
Physical environment	295,537	351,023	-	-	295,537	351,023
Economic environment	2,953,073	2,923,756	-	-	2,953,073	2,923,756
Health and human services	683,804	607,199	-	-	683,804	607,199
Culture and recreation	4,914,348	4,455,865	-	-	4,914,348	4,455,865
Interest on long-term debt	1,764,077	1,683,028	-	-	1,764,077	1,683,028
Surface Water Management	-	-	3,282,427	3,380,690	3,282,427	3,380,690
Dumas Bay Center	-	-	879,870	935,422	879,870	935,422
Total Expenses	38,388,730	36,609,769	4,162,297	4,316,112	42,551,027	40,925,881
Increase in net assets before transfers	12,543,090	16,628,960	1,217,032	793,064	13,760,122	17,422,024
Transfers	(203,190)	(116,813)	203,190	116,813	-	-
Increase in net assets	12,339,900	16,512,147	1,420,222	909,877	13,760,122	17,422,024
Net assets - beginning	96,654,687	80,142,540	47,368,371	46,458,494	144,023,058	126,601,034
Net assets - ending	\$ 108,994,587	\$ 96,654,687	\$ 48,788,593	\$ 47,368,371	\$ 157,783,180	\$ 144,023,058

Governmental activities contributed \$12.3 million or 90% of the total change in net assets of \$13.8 million. Key elements of this increase are in utility tax (\$7.6 million total) and real estate tax (\$3.1 million total) collections in 2004. Both of these taxes are reserved for debt service payments and transfers to various capital projects as approved by Council. In 2004, General government capital improvement projects expended \$12.6 million in 2004. Approximately \$6.4 million of these expenditures were from grants and \$3.1 million were from development fees. A portion of utility tax also provides ongoing subsidies to various operating activities, including Celebration Park maintenance, Knutzen Family Theatre, and Kenneth Jones Pool. Permit revenues exceeded operating budget estimates by \$465 thousand and department expenditures of \$1.4 million also contributed to the increase in net assets.



**Business-type activities** of the City's surface water management system and Dumas Bay Centre increased the City's net assets by \$1.4 million accounting 10% of the total growth in the government's net assets. The Surface Water Management Fund accounts for \$1.5 million with key elements of the increase in grants (\$500 thousand) expenditure decreases (\$1 million). Dumas Bay Centre Fund net assets decreased by \$60 thousand.



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City of Federal Way uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

The focus of the City of Federal Way's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2004, the City's governmental funds reported combined ending balances of \$40.1 million, a decrease of \$5.6 million in comparison to the prior year. Approximately 7% or \$2.7 million of this amount constitutes unreserved general fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for debt service payments, capital projects, police special funds and petty cash/change fund/advance travel.

The General Fund is the chief operating fund of the City. At the end of 2004 unreserved fund balance of the general fund was \$2.6 million, while total fund balance was \$2.8 million. General Fund unreserved fund balance represents 8% of total general fund expenditures.

The City's general fund decreased by \$5.2 million during 2004 as a result of transferring \$5.2 million to partially fund various capital improvement projects and provide subsidy to street fund operations.

The Debt Service Fund has a total fund balance of \$2.8 million, all of which is reserved for the payment of debt service.

**Proprietary funds**

The City of Federal Way's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net assets of the Surface Water Management Fund at the end of the year amounted to \$9.0 million, and those for Dumas Bay Centre amounted to \$231 thousand. The total change in net assets for both funds was \$1.5 million increase and \$60 thousand decrease, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Federal Way's business-type activities.

## BUDGETARY HIGHLIGHTS

The City of Federal Way budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. The following discussion is reflective only of the current year of the biennium.

The supplementary expenditure budget increase of \$8.2 million between the original budget for the fiscal year 2004 and the final budget are explained as follows:

Adjustments to revenues and other sources budget include: increases in property tax (\$175 thousand), state shared revenues (\$174 thousand), interfund transfers (\$2.3 million), grants and contributions (\$338 thousand), probation contract revenue (\$242 thousand), and 2003 ending fund balance carryforward (\$4.3 million); decreases in sales tax (\$494 thousand) and utility tax (\$750 thousand); and elimination of motor vehicle excise tax (\$764 thousand).

Adjustments to expenditure and other uses budget include:

- The \$338 thousand in grants and contributions funded the increase in public safety, homeland security, and solid waste & recycling grant programs.
- \$2.4 million increase debt service payments for community center, new city hall, and early retirement of the 1993 Saghalie Park bond.
- \$3.5 million in ending fund balance was used to provide transfers to various capital improvement projects, including the community/senior center facility and new City Hall, general fund subsidy to streets fund, transfers to debt service fund for community center debt payments, and transfers to internal service funds for management information systems and fleet and equipment.
- The remaining \$1.9 million increase in general governmental services was also funded by ending fund balance carry forward.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City of Federal Way's investment in capital assets for its governmental and business-type activities as of December 31, 2004 amounts to \$133.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, park facilities and construction in progress. The City has elected to exclude roads acquired or constructed prior to 2003. The City is currently inventorying and valuing these assets and will include them at a later date.

### CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION

	Governmental		Business-Type		Total	
	Activities		Activities		2004	2003
Land	\$	37,105,200	\$	5,861,695	\$	42,966,895
Building & Improvements		13,579,980		33,961,149		47,541,129
Machinery and equipment		3,421,609		38,844		3,460,453
Infrastructure		675,945		-		675,945
Construction in progress		34,676,530		4,178,002		38,854,532
Total Capital Assets	\$	89,459,264	\$	44,039,690	\$	133,498,954
					\$	117,406,138

Major capital asset events during the current fiscal year included the following: City hall tenant improvements totaling \$6.7 million; general capital improvement and expansion of city streets and traffic corridors totaling \$7.0

million; and parks improvements totaling \$500 thousand. Additional information on the City of Federal Way's capital assets can be found in Note 8 of the Notes to the Financial Statements.

**Long-term debt**

At the end of 2004, the City of Federal Way had total bonded debt outstanding of \$30.9 million which is backed by the full faith and credit of the government. The remainder of the City's debt represents Public Works Trust Fund Loans.

**LONG-TERM DEBT (FUTURE PRINCIPLE AND INTEREST PAYMENTS)**

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 45,926,792	\$ -	\$ 45,926,792
Public works trust fund loan	-	2,466,965	2,466,965
Total	<u>\$ 45,926,792</u>	<u>\$ 2,466,965</u>	<u>\$ 48,393,757</u>

The City's total debt decreased by \$4.1 million during 2004. The decrease represents annual debt service payments.

The City of Federal Way maintains an AA- rating from Fitch Investors for its general obligation bonds.

Washington State statutes limit the amount of debt a government entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City's assessed valuation for 2004 was \$6.29 million and the total amount of debt the City may issue is \$445.0 million. Remaining legal debt capacities as of December 31, 2004 are:

General Government (no vote requirement)	\$ 67,504,069
General Government (3/5 majority vote required)	\$ 62,923,436
Parks & Open Space (3/5 majority vote required)	\$157,308,591
Utilities (3/5 majority vote required)	<u>\$157,308,591</u>
Total Capacity	<u>\$445,044,686</u>

Additional information on the City of Federal Way's long-term debt can be found in Note 11 and in the Statistical Section of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's biennium 2005/2006 budget was developed under challenging economic conditions. Voter approved initiatives have reduced City annual revenues by a magnitude of \$3 million. Sales tax, the City's largest revenue source, has been declined 2.3% over the last two-year period (2001-2003). In addition, gambling tax and other tax revenues also have been declined significantly.

On the expenditure side, the substantial increase in employee benefit costs pushed the cost of city operations much higher. These costs include medical insurance premiums, state pension, and workers compensation. Medical benefits alone have risen over 88% in the past four years.

These factors have resulted in an operating budget gap of \$2.2 million in 2005 and \$2.6 million in 2006. Also, there are modest expenditure increases required to reflect anticipated increases in energy costs and public safety expenses.

To balance the budget, City Council has decided to fill half of the gap by adjusting fees and temporary ship unrestricted capital revenues for operations. The remaining half is through programs and line item cuts. About 6.5 general government full-time equivalent positions were eliminated in 2005/2006 budget.



**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Federal Way's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tho Kraus, Finance Manager, City of Federal Way, P.O. Box 9718, Federal Way, WA 98063-9718, telephone 253-835-2520, or visit the City's website at [www.cityoffederalway.com](http://www.cityoffederalway.com).



## **Basic Financial Statements**



## STATEMENT OF NET ASSETS

December 31, 2004

	Governmental	Business-type	Total	
	Activities	Activities	2004	2003
<b>ASSETS</b>				
Cash & cash equivalents and investments	\$ 48,555,230	\$ 7,307,646	\$ 55,862,876	\$ 58,676,850
Receivables (net)	1,965,643	127,912	2,093,555	2,367,791
Due from other governments	2,150,883	61,514	2,212,397	4,326,676
Prepaid items	63,463	-	63,463	10,928
Restricted assets:				
Cash with escrow agent	10,451	111,064	121,515	109,069
Customer deposits	1,424,499	11,777	1,436,276	1,186,930
Investment in joint venture	2,023,291	-	2,023,291	2,532,720
Capital Assets (net of accumulated depreciation)				
Land	37,105,200	5,861,695	42,966,895	42,801,280
Depreciable assets	17,001,589	33,999,993	51,001,582	52,809,220
Infrastructure	675,945	-	675,945	711,522
Construction in progress	34,676,530	4,178,002	38,854,532	21,084,116
Total Assets	145,652,724	51,659,603	197,312,327	186,617,102
<b>LIABILITIES</b>				
Accounts payable and accruals	2,645,905	149,679	2,795,584	2,126,229
Unearned revenue	613,430	167,365	780,795	873,613
Retainage payable	110,081	53,940	164,021	47,099
Retainage payable - with escrow agent	-	111,064	111,064	109,069
Due to other governments	73,980	-	73,980	19,565
Compensated absences	1,052,586	72,995	1,125,581	1,014,473
Customer deposits	1,359,263	11,777	1,371,040	1,186,930
Noncurrent Liabilities:				
Due within one year	3,094,088	182,359	3,276,447	3,283,526
Due in more than one year	27,708,804	2,121,831	29,830,635	33,933,540
Total Liabilities	36,658,137	2,871,010	39,529,147	42,594,044
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	60,679,663	41,735,500	102,415,163	82,721,792
Restricted for:				
Customer deposit	1,424,499	11,777	1,436,276	1,186,930
Debt service prefunding	2,826,228	-	2,826,228	2,599,653
Capital projects	32,542,775	-	32,542,775	33,324,511
Steel Lake Management District	-	8,202	8,202	-
Other	469,039	310	469,349	709,230
Unrestricted	11,052,383	7,032,804	18,085,187	23,480,942
Total Net Assets	\$ 108,994,587	\$ 48,788,593	\$ 157,783,180	\$ 144,023,058

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF ACTIVITIES**  
For the Year ended December 31, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Comparative Totals 2004	Restated 2003
<i>Governmental Activities:</i>								
General Government	\$ 6,304,256	\$ 1,509,973	\$ -	\$ -	\$ (4,794,283)	\$ -	\$ (4,794,283)	\$ (4,251,003)
Security of Persons & Property	17,374,845	4,203,315	-	-	(13,171,530)	-	(13,171,530)	(11,838,757)
Transportation	4,098,790	1,453,002	-	7,214,776	4,568,988	-	4,568,988	5,979,142
Physical Environment	295,537	94,627	-	-	(200,910)	-	(200,910)	(266,402)
Economic Environment	2,953,073	788,171	-	-	(2,164,902)	-	(2,164,902)	(2,218,926)
Health	683,804	163,686	32,415	-	(487,703)	-	(487,703)	(100,821)
Culture & Recreation	4,914,348	1,201,189	-	-	(3,713,159)	-	(3,713,159)	(3,381,690)
Interest on long-term debt	1,764,077	-	-	-	(1,764,077)	-	(1,764,077)	(1,683,028)
Total governmental activities	38,388,730	9,413,965	32,415	7,214,776	(21,727,574)	-	(21,727,574)	(19,433,710)
<i>Business-type Activities:</i>								
Surface Water Management	3,282,427	3,678,169	531,045	465,660	-	1,392,447	1,392,447	892,734
Dumas Bay Centre	879,870	570,851	4,600	12,370	-	(292,049)	(292,049)	(241,650)
Total business-type activities	4,162,297	4,249,020	535,645	478,030	-	1,100,398	1,100,398	651,084
<b>Total</b>	<b>\$ 42,551,027</b>	<b>\$ 13,662,985</b>	<b>\$ 568,060</b>	<b>\$ 7,692,806</b>	<b>(21,727,574)</b>	<b>1,100,398</b>	<b>(20,627,176)</b>	<b>(18,782,626)</b>
<b>General revenues:</b>								
Property tax					8,121,088	-	8,121,088	8,200,955
Sales tax					10,546,218	-	10,546,218	10,547,534
Other taxes					13,842,322	-	13,842,322	13,522,836
Other revenue					751,020	-	751,020	1,077,039
Unrestricted Grants & Contributions					176,928	-	176,928	212,576
Investment Earnings					837,453	116,913	954,366	937,225
Disposition of capital assets					(4,365)	(279)	(4,644)	34,260
Transfers					(203,190)	203,190	-	-
Total general revenues and transfers					34,067,474	319,824	34,387,298	36,204,650
Change in net assets					12,339,900	1,420,222	13,760,122	17,422,024
Net assets at beginning of year					96,654,687	47,368,371	144,023,058	126,601,034
Net assets at end of year					<b>\$ 108,994,587</b>	<b>\$ 48,788,593</b>	<b>\$ 157,783,180</b>	<b>\$ 144,023,058</b>

The notes to the financial statements are an integral part of this statement.

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2004**

ASSETS	General	Street	Utility Tax	Debt Service	City Facilities	Transportation	Nonmajor Governmental	Comparative Totals	
								2004	2003
Equity in pooled cash & investments	\$ 3,427,689	\$ 1,185,505	\$ 250,448	\$ 2,880,857	\$20,350,191	\$ 10,858,957	\$ 1,879,353	\$ 40,833,000	\$ 43,325,167
Prepaid insurance/debt service	10,033	-	-	48,430	-	-	-	58,463	5,928
Retainage in escrow	-	-	-	-	10,451	-	-	10,451	-
Receivables (net):									
Taxes	524,120	-	844,908	-	-	-	-	1,369,028	1,296,280
Accounts and contracts	150,844	-	-	202,345	9,398	173,930	-	536,517	845,451
Interest	3,992	725	198	2,966	14,661	6,611	1,204	30,357	49,003
Due from other governments	1,144,699	117,723	-	-	-	589,508	298,953	2,150,883	4,298,055
Interfund loans receivable	10,000	-	-	-	-	-	-	10,000	10,000
<b>TOTAL ASSETS</b>	<b>5,271,377</b>	<b>1,303,953</b>	<b>1,095,554</b>	<b>3,134,598</b>	<b>20,384,701</b>	<b>11,629,006</b>	<b>2,179,510</b>	<b>44,998,699</b>	<b>49,829,884</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Vouchers payable	904,539	62,359	(24)	-	381,399	176,961	231,619	1,756,853	1,504,209
Accounts/payroll payable	646,758	82,320	-	-	-	-	6,099	735,177	371,499
Accrued interest payable	-	-	-	-	-	-	-	-	16,079
Retainage payable	-	4,961	-	-	104,656	-	464	110,081	37,687
Due to other governments	73,980	-	-	-	-	-	-	73,980	19,565
Due to other funds	-	-	-	-	-	-	-	-	-
Performance bonds	-	-	-	-	-	-	-	-	-
Deposits payable	388,039	1,035,959	-	-	-	-	-	1,423,998	1,172,992
Interfund loans payable	-	-	-	-	-	-	10,000	10,000	10,000
Deferred revenue	413,019	18,354	-	308,370	-	-	13,769	753,512	907,129
<b>TOTAL LIABILITIES</b>	<b>2,426,335</b>	<b>1,203,953</b>	<b>(24)</b>	<b>308,370</b>	<b>486,055</b>	<b>176,961</b>	<b>261,951</b>	<b>4,863,601</b>	<b>4,039,160</b>
<b>Fund balance:</b>									
<b>Reserved:</b>									
Debt service prefunding	-	-	-	2,826,228	-	-	-	2,826,228	2,599,653
Other	187,011	-	-	-	-	-	180,825	367,836	709,020
<b>Unreserved:</b>									
General fund	2,658,031	-	-	-	-	-	-	2,658,031	7,578,723
Special revenue funds	-	100,000	1,095,578	-	-	-	544,650	1,740,228	1,578,817
Capital projects funds	-	-	-	-	19,898,646	11,452,045	1,192,084	32,542,775	33,324,511
<b>TOTAL FUND BALANCES</b>	<b>2,845,042</b>	<b>100,000</b>	<b>1,095,578</b>	<b>2,826,228</b>	<b>19,898,646</b>	<b>11,452,045</b>	<b>1,917,559</b>	<b>40,135,098</b>	<b>45,790,724</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 5,271,377</b>	<b>\$ 1,303,953</b>	<b>\$ 1,095,554</b>	<b>\$ 3,134,598</b>	<b>\$20,384,701</b>	<b>\$11,629,006</b>	<b>\$ 2,179,510</b>		

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds.	84,970,324	70,559,787
Investment in joint venture is not a financial resource and, therefore, not reported in the funds	2,023,291	2,532,720
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	205,317	248,991
Internal service funds are used by management to charge the costs of insurance, information systems, mail and duplication, fleet, and building management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	13,435,470	13,160,832
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(31,774,913)	(35,638,367)
<b>Net assets of governmental activities</b>	<b>\$108,994,587</b>	<b>\$ 96,654,687</b>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004**

	General	Street	Utility Tax	Debt Service	City Facilities	Transportation	Nonmajor Governmental	Comparative Totals	
								2004	2003
<b>REVENUES</b>									
Taxes	\$ 21,777,794	\$ -	\$ 7,554,580	\$ 3,078,898	\$ -	\$ -	\$ 142,030	\$ 32,553,302	\$ 32,022,334
Licenses and permits	1,144,737	90,302	-	-	-	-	-	1,235,039	1,000,250
Intergovernmental	1,258,344	1,231,097	-	-	-	6,399,629	1,222,467	10,111,537	12,313,459
Service charges and fees	3,696,425	249,064	-	-	-	-	255,039	4,200,528	3,965,992
Development fees	-	-	-	-	-	3,074,159	93,446	3,167,605	2,565,215
Fines and forfeitures	810,793	-	-	-	-	-	-	810,793	887,071
Interest	137,675	13,632	6,833	56,872	371,200	132,410	25,813	744,435	701,311
Other	667,393	5,462	-	-	78,147	-	23	751,025	1,093,109
<b>TOTAL REVENUES</b>	<b>29,493,161</b>	<b>1,589,557</b>	<b>7,561,413</b>	<b>3,135,770</b>	<b>449,347</b>	<b>9,606,198</b>	<b>1,738,818</b>	<b>53,574,264</b>	<b>54,548,741</b>
<b>EXPENDITURES</b>									
Current:									
General government	5,740,632	-	53,561	-	-	-	313,371	6,107,564	5,492,123
Security of persons and property	16,982,135	-	-	-	-	-	-	16,982,135	15,463,833
Transportation	-	3,604,189	-	-	-	-	1,184,765	4,788,954	5,358,543
Physical environment	-	-	-	-	-	-	289,921	289,921	351,456
Economic environment	2,757,959	-	-	-	-	-	186,625	2,944,584	2,883,079
Health	679,655	-	-	-	-	-	-	679,655	603,184
Culture and recreation	3,731,306	-	-	-	-	-	196,627	3,927,933	3,507,392
Debt service:									
Principal	-	-	-	3,768,044	-	-	-	3,768,044	14,159,881
Interest/fiscal charges/admin fees	-	-	-	1,764,077	-	-	-	1,764,077	1,703,165
Capital outlay	51,847	59,336	-	-	7,560,649	9,412,458	524,790	17,609,080	22,779,620
<b>TOTAL EXPENDITURES</b>	<b>29,943,534</b>	<b>3,663,525</b>	<b>53,561</b>	<b>5,532,121</b>	<b>7,560,649</b>	<b>9,412,458</b>	<b>2,696,099</b>	<b>58,861,947</b>	<b>72,302,275</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(450,373)</b>	<b>(2,073,968)</b>	<b>7,507,852</b>	<b>(2,396,351)</b>	<b>(7,111,302)</b>	<b>193,740</b>	<b>(957,281)</b>	<b>(5,287,683)</b>	<b>(17,753,534)</b>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	530,468	2,098,378	-	4,247,926	3,448,370	3,047,625	2,242,872	15,615,639	21,037,023
Transfers out	(5,244,666)	(24,410)	(7,215,336)	(1,625,000)	(449,068)	(2,770)	(1,422,332)	(15,983,582)	(20,390,141)
GO bond proceeds	-	-	-	-	-	-	-	-	21,168,599
Sale of capital assets	-	-	-	-	-	-	-	-	209,527
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(4,714,198)</b>	<b>2,073,968</b>	<b>(7,215,336)</b>	<b>2,622,926</b>	<b>2,999,302</b>	<b>3,044,855</b>	<b>820,540</b>	<b>(367,943)</b>	<b>22,025,008</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(5,164,571)</b>	<b>-</b>	<b>292,516</b>	<b>226,575</b>	<b>(4,112,000)</b>	<b>3,238,595</b>	<b>(136,741)</b>	<b>(5,655,626)</b>	<b>4,271,474</b>
<b>FUND BALANCES - BEGINNING</b>	<b>8,009,613</b>	<b>100,000</b>	<b>803,062</b>	<b>2,599,653</b>	<b>24,010,646</b>	<b>8,213,450</b>	<b>2,054,300</b>	<b>45,790,724</b>	<b>41,519,250</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,845,042</b>	<b>\$ 100,000</b>	<b>\$ 1,095,578</b>	<b>\$ 2,826,228</b>	<b>\$ 19,898,646</b>	<b>\$ 11,452,045</b>	<b>\$ 1,917,559</b>	<b>\$ 40,135,098</b>	<b>\$ 45,790,724</b>

The notes to the financial statements are an integral part of this statement



**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2004

Amounts reported for governmental activities in the statement of activities (page 20) are different because:	2004	2003
Net change in fund balances--total governmental funds	\$ (5,655,626)	\$ 4,271,474
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	13,796,462	19,750,037
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	205,317	248,991
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the issuance proceeds of new debt as current financial resources and payment as the use of current resources, whereas these amounts reduce the net assets.	3,788,624	(6,988,581)
Internal service funds are used by management to charge costs of risk management, information systems, mail & duplication, fleet, and building systems to the funds.	269,297	(645,175)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	(64,170)	(124,599)
Change in net assets of governmental activities	\$ 12,339,904	\$ 16,512,147

The notes to the financial statements are an integral part of this statement.

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL**

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 24,140,448	\$ 23,821,448	\$ 21,777,794	\$ (2,043,654)
Licenses and permits	831,896	831,896	1,144,737	312,841
Intergovernmental	77,267	550,862	1,258,344	707,482
Service charges and fees	3,287,779	3,379,779	3,696,425	316,646
Fines and forfeitures	1,092,724	1,242,724	810,793	(431,931)
Interest	277,517	277,514	137,675	(139,839)
Other	103,903	103,903	667,393	563,490
<b>TOTAL REVENUES</b>	<b>29,811,534</b>	<b>30,208,126</b>	<b>29,493,161</b>	<b>(714,965)</b>
<b>EXPENDITURES</b>				
Current:				
General government	4,751,404	4,848,701	5,740,632	(891,931)
Security of persons and property	17,294,057	17,796,979	17,033,982	762,997
Economic environment	3,307,608	3,887,059	2,757,959	1,129,100
Health	750,685	750,685	679,655	71,030
Culture and recreation	4,002,936	4,042,760	3,731,306	311,454
Capital outlay	-	290,577	-	290,577
<b>TOTAL EXPENDITURES</b>	<b>30,106,690</b>	<b>31,616,761</b>	<b>29,943,534</b>	<b>1,673,227</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(295,156)</b>	<b>(1,408,635)</b>	<b>(450,373)</b>	<b>958,262</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	4,591	530,468	525,877
Transfers out	(3,277,754)	(5,107,740)	(5,244,666)	(136,926)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(3,277,754)</b>	<b>(5,103,149)</b>	<b>(4,714,198)</b>	<b>388,951</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(3,572,910)</b>	<b>(6,511,784)</b>	<b>(5,164,571)</b>	<b>1,347,213</b>
<b>FUND BALANCES - BEGINNING</b>	<b>3,882,910</b>	<b>8,009,614</b>	<b>8,009,613</b>	<b>(1)</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 310,000</b>	<b>\$ 1,497,830</b>	<b>\$ 2,845,042</b>	<b>\$ 1,347,212</b>

The notes to the financial statements are an integral part of this statement.

**STREET FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses and permits	\$ 187,694	\$ 187,694	\$ 90,302	\$ (97,392)
Intergovernmental	1,211,228	1,478,242	1,231,097	(247,145)
Service charges and fees	953,614	212,123	249,064	36,941
Interest	10,656	10,656	13,632	2,976
Other	4,946	4,946	5,462	516
<b>TOTAL REVENUES</b>	<b>2,368,138</b>	<b>1,893,661</b>	<b>1,589,557</b>	<b>(304,104)</b>
<b>EXPENDITURES</b>				
Current:				
Transportation	3,872,635	4,031,640	3,663,525	368,115
Capital outlay	-	14,410	-	14,410
<b>TOTAL EXPENDITURES</b>	<b>3,872,635</b>	<b>4,046,050</b>	<b>3,663,525</b>	<b>382,525</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,504,497)</b>	<b>(2,152,389)</b>	<b>(2,073,968)</b>	<b>78,421</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,504,497	2,152,389	2,098,378	(54,011)
Transfers out	-	-	(24,410)	(24,410)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,504,497</b>	<b>2,152,389</b>	<b>2,073,968</b>	<b>(78,421)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES - BEGINNING</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ -</b>

The notes to the financial statements are an integral part of this statement.

**UTILITY TAX FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**

For the Year Ended December 31, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 8,003,021	\$ 7,253,021	\$ 7,554,580	\$ 301,559
Interest	50,000	50,000	6,834	(43,166)
<b>TOTAL REVENUES</b>	<b>8,053,021</b>	<b>7,303,021</b>	<b>7,561,413</b>	<b>258,392</b>
<b>EXPENDITURES</b>				
Current:				
General government	53,561	53,561	53,561	-
<b>TOTAL EXPENDITURES</b>	<b>53,561</b>	<b>53,561</b>	<b>53,561</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,999,460</b>	<b>7,249,460</b>	<b>7,507,852</b>	<b>258,392</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(5,941,336)	(7,215,336)	(7,215,336)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,941,336)</b>	<b>(7,215,336)</b>	<b>(7,215,336)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,058,124</b>	<b>34,124</b>	<b>292,516</b>	<b>258,392</b>
<b>FUND BALANCES - BEGINNING</b>	<b>107,994</b>	<b>803,062</b>	<b>803,062</b>	<b>-</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 2,166,118</b>	<b>\$ 837,186</b>	<b>\$ 1,095,578</b>	<b>\$ 258,392</b>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
December 31, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
	Surface Water Management	Dumas Bay Centre	Comparative Totals		2004	2003
			2004	2003		
<b>ASSETS</b>						
<b>Current assets</b>						
Equity in pooled cash and investments	\$ 6,808,579	\$ 510,844	\$ 7,319,423	\$ 7,993,571	\$ 9,146,730	\$ 8,545,042
Cash with escrow agent	111,064	-	111,064	109,069	-	-
Prepaid items	-	-	-	-	5,000	5,000
Receivables (net):					25,000	-
Taxes	87,354	-	87,354	114,356	-	-
Accounts and contracts	-	35,527	35,527	48,321	-	-
Interest	4,645	386	5,031	7,729	4,744	6,652
Due from other governments	58,414	3,100	61,514	28,621	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>7,070,056</b>	<b>549,857</b>	<b>7,619,913</b>	<b>8,301,667</b>	<b>9,181,474</b>	<b>8,556,694</b>
<b>Noncurrent assets</b>						
<b>Capital assets:</b>						
Land	3,752,055	2,109,640	5,861,695	5,818,294	-	-
Building/structures	40,948,184	3,571,152	44,519,336	44,483,561	-	3,394,269
Machinery/furniture/equipment	-	106,643	106,643	106,643	12,798,021	9,110,417
Construction in progress	3,853,833	324,169	4,178,002	1,672,109	-	-
Less accumulated depreciation	(9,199,633)	(1,426,353)	(10,625,986)	(10,034,564)	(8,309,082)	(7,704,378)
<b>TOTAL NONCURRENT ASSETS</b>	<b>39,354,439</b>	<b>4,685,251</b>	<b>44,039,690</b>	<b>42,046,043</b>	<b>4,488,939</b>	<b>4,800,308</b>
<b>TOTAL ASSETS</b>	<b>46,424,495</b>	<b>5,235,108</b>	<b>51,659,603</b>	<b>50,347,710</b>	<b>13,670,413</b>	<b>13,357,002</b>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Vouchers payable	146,218	11,803	158,021	140,706	153,875	129,149
Taxes payable	-	-	-	(1,136)	-	-
Retainage payable	50,281	3,659	53,940	9,412	-	-
Retainage payable - with escrow agent	111,064	-	111,064	109,069	-	-
Deposits payable	-	11,777	11,777	13,938	500	-
Deferred revenue	71,429	95,936	167,365	215,475	-	-
Public works trust fund loan payable	182,359	-	182,359	182,359	-	-
Compensated absences payable	58,710	14,285	72,995	36,601	80,566	70,022
<b>TOTAL CURRENT LIABILITIES</b>	<b>620,061</b>	<b>137,460</b>	<b>757,521</b>	<b>706,424</b>	<b>234,941</b>	<b>199,171</b>
<b>Noncurrent liabilities:</b>						
Public works trust fund loan payable	2,121,831	-	2,121,831	2,304,190	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>2,121,831</b>	<b>-</b>	<b>2,121,831</b>	<b>2,304,190</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>2,741,892</b>	<b>137,460</b>	<b>2,879,352</b>	<b>3,010,614</b>	<b>234,941</b>	<b>199,171</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	37,050,249	4,685,251	41,735,500	39,559,494	4,488,938	4,800,308
Reserved for:						
Petty cash/change fund	-	310	310	210	-	-
Customer deposits	-	11,777	11,777	13,938	-	-
Steel Lake Management District	8,202	-	8,202	-	-	-
Unrestricted	6,624,152	400,310	7,024,462	7,763,454	8,946,534	8,357,523
<b>TOTAL NET ASSETS</b>	<b>\$ 43,682,603</b>	<b>\$ 5,097,648</b>	<b>\$ 48,780,251</b>	<b>\$ 47,337,096</b>	<b>\$ 13,435,472</b>	<b>\$ 13,157,831</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			8,342	31,275		
<b>NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$ 48,788,593</b>	<b>\$ 47,368,371</b>		

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

For the Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
	Surface Water Management	Dumas Bay Centre	Comparative Totals 2004      2003		2004	2003
<b>OPERATING REVENUES:</b>						
Service charges and fees	\$ 3,667,168	\$ 558,046	\$4,225,214	\$4,028,491	\$ 4,352,773	\$ 4,083,407
Miscellaneous	11,000	12,804	23,804	12,572	25,373	9,257
<b>TOTAL OPERATING REVENUES</b>	<b>3,678,168</b>	<b>570,850</b>	<b>4,249,018</b>	<b>4,041,063</b>	<b>4,378,146</b>	<b>4,092,664</b>
<b>OPERATING EXPENSES:</b>						
Personal services	1,217,538	249,563	1,467,101	1,361,632	696,519	683,031
Materials and supplies	51,725	13,543	65,268	75,894	361,331	307,639
Services and charges	712,133	373,834	1,085,967	1,349,238	2,023,152	2,092,232
Intergovernmental	310,029	8,754	318,783	320,148	95,435	65,767
Depreciation	409,918	181,504	591,422	593,599	1,175,079	1,132,164
Interfund charges	554,273	51,578	605,851	580,509	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>3,255,616</b>	<b>878,776</b>	<b>4,134,392</b>	<b>4,281,020</b>	<b>4,351,516</b>	<b>4,280,833</b>
<b>OPERATING INCOME (LOSS)</b>	<b>422,552</b>	<b>(307,926)</b>	<b>114,626</b>	<b>(239,957)</b>	<b>26,630</b>	<b>(188,169)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Subsidy from interlocal grants	531,045	4,600	535,645	168,555	-	-
Gain / loss from disposal of fixed assets	-	-	-	-	(5,829)	18,190
Interest income	109,412	7,501	116,913	134,824	93,019	101,090
Interest expense	(24,865)	-	(24,865)	(26,689)	-	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>615,592</b>	<b>12,101</b>	<b>627,693</b>	<b>276,690</b>	<b>87,190</b>	<b>119,280</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>1,038,144</b>	<b>(295,825)</b>	<b>742,319</b>	<b>36,733</b>	<b>113,820</b>	<b>(68,889)</b>
Capital contributions	465,660	12,370	478,030	757,578	176,928	465,404
Transfers in	-	225,310	225,310	244,588	-	-
Transfers out	(638)	(1,866)	(2,504)	(160,297)	(13,107)	(984,000)
<b>CHANGE IN NET ASSETS</b>	<b>1,503,166</b>	<b>(60,011)</b>	<b>1,443,154</b>	<b>878,602</b>	<b>277,641</b>	<b>(587,485)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>42,179,437</b>	<b>5,157,659</b>			<b>13,157,831</b>	<b>13,745,316</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$43,682,603</b>	<b>\$ 5,097,648</b>			<b>\$13,435,472</b>	<b>\$13,157,831</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(22,933)	31,275		
<b>CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES</b>			<b>\$1,420,221</b>	<b>\$ 909,877</b>		

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds	
	Surface Water Management	Dumas Bay Centre	Comparative Totals		2004	2003
			2004	2003		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from users	\$ 3,661,629	\$ 555,292	\$ 4,216,921	\$ 4,028,804	\$ 4,327,773	\$ 4,083,907
Cash received from other governments for goods & services	(44,043)	11,150	(32,893)	13,869	-	-
Cash payments for taxes	-	1,136	1,136	(1,136)	-	-
Cash payments to claimants	-	-	-	-	(141,615)	(166,522)
Cash payments to suppliers for goods/services	551	(19,296)	(18,745)	(75,895)	(2,313,077)	(2,238,307)
Cash payments to employees	(1,186,462)	(244,245)	(1,430,707)	(1,362,876)	(685,975)	(675,693)
Cash payments to other funds for goods and services	(554,273)	(51,578)	(605,851)	(580,509)	-	(80,748)
Cash payments for other services/charges	(672,909)	(395,743)	(1,068,652)	(1,499,587)	-	-
Cash payments to other governments for goods & services	(310,029)	(8,754)	(318,783)	(320,148)	-	-
Cash payments for damage deposits	-	(2,161)	(2,161)	2,937	-	-
Other operating receipts	11,000	12,804	23,804	12,572	25,373	9,257
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>905,464</b>	<b>\$ (141,395)</b>	<b>764,069</b>	<b>218,031</b>	<b>1,212,479</b>	<b>931,894</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING</b>						
Subsidy from interlocal grant	725,045	4,600	729,645	178,824	-	-
Operating transfers in	-	225,310	225,310	244,588	-	-
Operating transfers out	(638)	(1,866)	(2,504)	(127,776)	(13,107)	(984,000)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>724,407</b>	<b>228,044</b>	<b>952,451</b>	<b>295,636</b>	<b>(13,107)</b>	<b>(984,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal paid on debt service	(182,359)	-	(182,359)	(182,359)	-	-
Interest paid on debt service	(24,865)	-	(24,865)	(26,689)	-	-
Acquisition of capital asset/construction work in progress	(2,572,703)	(169,135)	(2,741,838)	(138,636)	(877,426)	(1,065,183)
Proceeds from sale of fixed assets	-	-	-	-	158,244	18,190
Cash contributions for capital acquisition	271,663	169,135	440,798	(32,521)	26,572	252,829
<b>NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(2,508,264)</b>	<b>-</b>	<b>(2,508,264)</b>	<b>(380,205)</b>	<b>(692,610)</b>	<b>(794,164)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Receipts of interest	112,090	7,501	119,591	133,626	94,926	102,218
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>112,090</b>	<b>7,501</b>	<b>119,591</b>	<b>133,626</b>	<b>94,926</b>	<b>102,218</b>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>(766,303)</b>	<b>94,150</b>	<b>(672,153)</b>	<b>267,088</b>	<b>601,688</b>	<b>(744,052)</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>7,685,946</b>	<b>416,694</b>	<b>8,102,640</b>	<b>7,835,552</b>	<b>8,545,042</b>	<b>9,289,094</b>
	<b>6,919,643</b>	<b>510,844</b>	<b>7,430,487</b>	<b>8,102,640</b>	<b>9,146,730</b>	<b>8,545,042</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	422,552	(307,926)	114,626	(239,957)	26,630	(188,169)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	409,918	181,504	591,422	593,599	1,175,079	1,132,164
(Increase)/decrease in accounts receivable	-	12,815	12,815	(15,712)	(25,000)	-
(Increase)/decrease in taxes receivable	27,002	-	27,002	(17,953)	-	-
(Increase)/decrease in due from other governments	(44,043)	11,150	(32,893)	13,871	-	-
Increase/(decrease) in vouchers/accounts payable	39,224	(21,909)	17,315	(159,752)	25,226	(19,439)
Increase/(decrease) in retainage payable	52,276	(5,753)	46,523	5,978	-	-
Increase/(decrease) in deposits payable	-	(2,161)	(2,161)	2,937	-	-
Increase/(decrease) in taxes payable	-	1,136	1,136	(1,136)	-	-
Increase/(decrease) in deferred revenue	(32,541)	(15,569)	(48,110)	37,400	-	-
Increase/(decrease) in accrued payroll/comp absences payable	31,076	5,318	36,394	(1,244)	10,544	7,338
Total Adjustments	482,912	166,531	649,443	457,988	1,185,849	1,120,063
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 905,464</b>	<b>\$ (141,395)</b>	<b>\$ 764,069</b>	<b>\$ 218,031</b>	<b>\$ 1,212,479</b>	<b>\$ 931,894</b>
<b>Noncash investing, capital, and financing activities:</b>						
Other contributions of capital assets					\$ 111,055	\$ 264,023

The notes to the financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2004

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended December 31, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the City of Federal Way conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), and are regulated by the Washington State Auditor's Office. The City's significant accounting policies are described below.

**REPORTING ENTITIES**

The City's Comprehensive Annual Financial Report (CAFR) includes the funds, agencies and boards controlled by or dependent on the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity", the primary basis of determining whether outside agencies and organizations should be considered component units of the City is Financial Accountability.

**Financial Accountability**

Financial accountability is defined as appointment of a voting majority of an agency's or organization's board, and either the City's ability to impose will on the agency or organization or the possibility that the agency or organization will provide a financial benefit to or impose a financial burden on the City.

**Joint Ventures**

A joint venture is a legal entity or organization which results from a contractual arrangement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility. The City participates in one joint venture, Valley Communications Center. See Note 14, Joint Venture, which more fully describes this organization.

**ACCOUNTING STANDARDS**

The City implemented GASB Statement 34 ("Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"), GASB 37 ("Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments: Omnibus"), and GASB 38 ("Certain Financial Statement Note Disclosures"). These new standards substantially change the financial reporting basis and format. Some of these changes are:

- Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall position and results of operations
- Financial statements prepared using full accrual accounting for all government-wide City activities, including current year infrastructure
- Change in the individual fund financial statements focusing on the major funds

**GOVERNMENTAL-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to specific function or segment. Program revenues include 1)

charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grant and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

## **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Governmental Funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Federal Way considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

#### General Fund

This is the City's general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

#### Street Fund

This fund accounts for receipt and disbursement of State-levied "unrestricted" motor vehicle fuel taxes which must be accounted for in a separate fund and expended for street-oriented engineering, construction and maintenance purposes only.

#### Utility Tax Fund

This fund was established to account for all utility tax receipts. These receipts will subsequently be distributed to various funds (Debt Service, Capital Improvement Projects, etc.) for project expenditure as determined by the City Council.

#### Debt Service Fund

This fund accounts for the accumulation of resources for the payment of general obligation and assessment bond principal, interest and related costs.

City Facilities CIP Fund

This fund accounts for receipts and disbursements related to acquisition, design, construction and any other related municipal facility and community/senior capital project expenditures.

Transportation CIP Fund

This fund accounts for receipts and disbursements related to acquisition, design, construction and any other related street project expenditures.

The City reports the following fund groups as non-major funds:

Special Revenue Funds

These funds are to be used to account for the proceeds of revenues and sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds

These funds account for the acquisition or construction of major capital facilities with the exception of those facilities financed by the proprietary and trust funds. The major sources of revenues for this fund are general obligation bond proceeds, grants from other agencies, local taxes and contributions from other funds.

**Proprietary Funds**

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. The measurement focus for these funds is based on the commercial model, which uses a flow of economic resources approach. Under this approach, the operating statements for the proprietary funds focus on a measurement of net income (revenues and expenses) and both current and non-current assets and liabilities are reported on the related balance sheets.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City of Federal Way has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements.

Amounts reported as program revenue include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are primarily user charges, the cost of providing goods or services to the general public on a continuing basis. Operating expenses for enterprise funds and internal service funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major proprietary funds:

## **Enterprise Funds**

The City uses enterprise funds to account for government activities that are financed and operated in a manner similar to private business. Costs of providing services to the general public are primarily financed by user fees.

### Surface Water Management Fund

This fund was established to administer and account for all receipts and expenditures related to the City's surface and storm water management system.

### Dumas Bay Centre Fund

This fund was established to account for the revenues and expenses related to the acquisition, capital improvements maintenance and operations of the City-owned Dumas Bay Centre and Knutzen Family Theatre.

## **Internal Service Funds**

The City uses Internal Service Funds to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

A description of each individual Internal Service Fund included in the Comprehensive Annual Financial Report is provided below:

### Risk Management Fund

This fund accounts for the City's risk financing activities established to minimize adverse effects of losses associated with property and casualty, medical and dental, unemployment and worker's compensation claims. Both risk control (to minimize the losses that strike and organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is currently self-insuring only State Unemployment Compensation. Related premiums received by the fund are used to reimburse the unemployment benefits paid to eligible individuals and to establish reserves for the payment of estimated future unemployment claims liability. The City is also currently recovering costs and building reserves for general liability including property, casualty, errors and omissions and fidelity coverage.

### Information Systems Fund

This fund was established to account for all costs associated with data processing, telecommunications and the Geographical Information System (GIS). This fund will own and depreciate all non-proprietary fund assets related to these functions, and will charge equipment/software users for both maintenance and operating costs and equipment replacement charges based on depreciation schedules.

### Support Services Fund

This fund accounts for duplication, graphics and other general support services provided to departments and funds throughout the City.

### Fleet and Equipment Fund

This fund accounts for the cost of maintaining City vehicles and other motorized equipment. Rates charged to user departments are based on the full cost of maintaining equipment items, including the recovery of related depreciation expense.

### Buildings and Furnishings Fund

This fund accounts for all costs associated with the operation and maintenance of specified City buildings. City building facilities and furnishings will be owned by this Fund, and both maintenance/operating costs and depreciation recovery will be charged City departments and funds.

## Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements.

The *accrual basis* of accounting is used by proprietary funds. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

The *modified accrual* basis of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. The City uses thirty days when evaluating the available criteria.

Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered an expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

Major revenues recorded on the modified accrual basis are:

**Property Taxes** - King County acts as the City's collection agent for these taxes. Each day, the County electronically transmits to the City the taxes which it has collected on the City's behalf in the prior day. On this basis, property taxes received in January are considered both measurable and available and are therefore recognized as revenue in the current year.

**Other Locally Levied Taxes** - King County also acts as the City's collection agent for the ¼% and optional ¼% real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by King County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January is considered both measurable and available and is therefore accrued as revenue at year-end.

**Grant Revenues** - Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned and, therefore, available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Shared Revenues** - Revenues that have been collected, but not remitted by an intermediary collection agency to the City, are considered measurable and available.

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; interfund, and intergovernmental service billings related to services provided in the current year which are outstanding at year end; and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices.

Revenues not considered to meet the criteria for recognition on the modified accrual basis include licenses and permits, fines and forfeitures, and other miscellaneous revenues which are generally not measurable until received.

## BUDGETARY INFORMATION

### Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, and debt service funds on the modified accrual basis of accounting. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles. Budgets for project and grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects. Since these funds are not budgeted on an annual basis, budgetary comparisons are not presented. NCGA Statement 1 does not require, and the financial statements do not present, budgetary comparisons for proprietary fund types.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without reappropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

The individual funds within each fund type which are included in the City's annual operating budget (funds budgeted on an annual basis) are:

<i>General Fund</i>	
<i>Special Revenue Funds</i>	
Street	Solid Waste & Recycling
Arterial Street	Hotel/Motel Lodging Tax Fund
Utility Tax	Paths and Trails Fund
<i>Debt Service Fund</i>	

### *Procedures for Adopting the Annual Budget*

The City's budget process and the time limits under which the budget must be prepared are defined by the Revised Code of Washington (RCW) 35A.33. The procedures followed in establishing the annual budget are described below:

- By late May the official budget call is made by the Management Services Director for current level service budgets and a preliminary financial forecast.
- By late June, departments submit their preliminary expenditure estimates and the Management Services department updates the preliminary revenue estimates to define resources available to finance coming year expenditure programs.
- Prior to the first Tuesday in September, the City Manager submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by City departments during the preceding months, and balanced with revenue estimates made by the Management Services Director.
- City Council conducts workshops and public hearings on the proposed budget between mid-September and mid-December.
- No later than the third Monday in November, the City Council must adopt an ordinance to establish the amount of property taxes to be levied in the coming year.
- By October 31, the City Manager files a preliminary budget with the City Clerk. Copies of the preliminary budget are provided to staff and the City Council and made available to the public.

- During the first two weeks of November, the City Clerk publishes a notice of the filing of the preliminary budget and notices of public hearings to be held during preliminary budget deliberations.
- Two public hearings on the proposed budget are also held during November and December. Final hearings on the budget must begin on or before the first Monday of December, and may continue until the 25th day prior to beginning of the next fiscal year.
- By December 31, the City Council makes its adjustments to the proposed budget and adopts a final budget by ordinance.
- The final operating budget, as adopted, is published and distributed within the first three months of the following year. Copies of the adopted budget are made available to the public.

### **Amending the Budget**

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority. During 2004, the budget was amended four times.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

### **Encumbrances**

An encumbrance system is used for budgetary control purposes to record commitments resulting from approved purchase orders. During the year, encumbrances are recorded in the accounting system at the time purchase orders are issued for goods and services. Upon payment, the encumbrance is reversed and the actual cost of the related item is recorded as a fund expenditure. Outstanding encumbrances lapse at year end, are canceled and must be re-established in the following year upon approval of the City Council through a budget adjustment ordinance. Therefore, these amounts have not been recorded as current year expenditures unless considered to be susceptible to accrual at the end of the year. The total encumbrances at year-end for the City were \$7,379,249.

## **ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

### **Cash and Investments**

The City follows the practice of pooling cash and investments of all funds for investment purposes, except for cash held in escrow, which is disclosed separately on the balance sheet. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity in pooled cash and investments.

It is the City's policy to invest all cash not immediately required for disbursement. At December 31, 2004, the State Treasurer was holding \$31,699,451 in the State Investment Pool and US Bank was holding \$19,879,153 in a Municipal Investor Account (MIA) for short-term investments of cash. The State Investment Pool and the Municipal Investor Account is considered a cash equivalent. The interest earnings on these investments are allocated to all funds based on the average monthly balance for each fund.

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. At December 31, 2004, the total cash and cash equivalents were \$51,616,365.

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; securities purchased by the Washington State Investment Pool; U.S. Treasury and Agency securities, banker's acceptances trading in the secondary market; and repurchase agreements with dealers that use authorized securities as collateral.

In accordance with GASB 31, investments in money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. There was no material deviation from fair value quoted at year-end.

### **Receivables**

Taxes receivable consists of property taxes and related interest and penalties (see Property Tax Note 6). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Due From Other Governments reflects measurable and available intergovernmental grants, entitlements, or State shared revenues (taxes/charges levied and collected by an intermediary collecting government and distributed on some basis); loans; and charges for services rendered by the City for another government unit. A separate schedule of Due From Other Governments is disclosed in Note 6.

### **Amounts Due to and from Other Funds; Interfund Loans**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Loans between funds must be authorized by the City Manager. In the governmental funds, loans to other funds are offset by a corresponding reservation of fund balance to indicate that the outstanding loan amounts do not constitute "available spendable resources" and are, therefore, not available for appropriation.

A separate schedule of interfund loans receivable and payable is furnished in Note 12.

### **Inventories**

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, lighting systems, etc), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City included governmental infrastructure constructed in 2004. Under the requirements of GASB 34, the City has until 2007 to record the remainder of its infrastructure assets.



Major expenditures for fixed assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred. The City has adopted a general fixed asset capitalization policy where an item's cost must equal or exceed \$1,000. All fixed assets are valued at historical cost (or estimated cost, where historical cost is not known/or estimated market value for donated assets).

Depreciation on all capital assets is recorded as an allocated expense in the government-wide Statement of Activities and in the proprietary fund statements. Capital assets are reported net of depreciation. The City uses a combination of group depreciation and straight-line depreciation over the life of the assets.

The following tables summarizes the average service lives used to calculate depreciation for specific categories of assets in the City's Proprietary Funds.

<u>Asset Class</u>	<u>Estimated Life in Years</u>
Office Furniture & Fixtures	10
Computer/Data Handling Equipment	4
Communications Equipment	10
Recreation Equipment	10
Parks equipment	5 - 12
Automobiles	5
Police Vehicles	4 - 6
Police Equipment	5
Light Trucks	5
Heavy Trucks	8
Heavy Work Equipment	10
Shop/Miscellaneous Equipment	10
Land Improvements	20
Buildings	20
Storm Drainage Systems	100

**Compensated Absences**

The City records a liability for all outstanding vacation pay and accrued compensatory time. In governmental funds, vacation pay and compensatory time is recorded as expenditures when paid which occurs when used or upon termination. In the entity-wide statements and the proprietary fund statements, vacation pay and compensatory time is recorded as a liability and expense in the year earned.

Employee vacation leave is accumulated monthly at rates ranging from 12 to 15 days per year depending on term of employment. Employees may accumulate up to a maximum of 240 hours of vacation leave, except the Police Guild, who can accrue up to a maximum of 256 hours. All outstanding vacation leave is payable upon termination of employment.

The differences between the governmental fund statements and the entity-wide statements represent reconciling items between the fund level and government-wide financial statements. The reconciliations are included as part of the financial statements.

A non-exempt employee may request compensatory time off in lieu of overtime payment. Compensatory time is accrued at a rate of one and one-half hours for each hour of overtime worked, to a maximum of eighty hours, or forty hours for Police Guild members.

Sick leave may be accumulated up to a maximum of 720 hours, per City policy. The monthly accrual rate for City employees is 8 hours per month. Accumulated sick leave is not payable upon termination of employment.

Outstanding sick leave at year-end is not accrued due to the difficulty in estimating the portion of existing balances likely to result in expenditures in future periods.

### Short-term Debt

As of December 31, 2004, the City of Federal Way did not incur any short-term debt.

### Long-term Debt

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Long-term debt outstanding at year-end is outlined in Note 11.

### Deferred Revenues

The deferred revenue account is used to offset receivables established in the governmental funds for certain revenues that are measurable but not considered available to finance payment of current obligations and, therefore, are not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. The portions of Property Taxes that do not meet the available criteria are recorded as deferred revenue.

### Fund Equity-Reserves and Designations

Reserves represent portions of fund equity that are legally restricted for a specific future purpose or not available for appropriation because they do not represent a current expendable resource. Designations of fund balance identify amounts set aside by management for tentative future purposes or administrative convenience.

In governmental funds, fund balance that is legally restricted for future purposes include reserves for: a) future employee retirement payments and b) future debt service. The City of Federal Way does not have fiduciary funds. Fund balance not available for expenditure in the governmental funds consists of the outstanding balances of current interfund loans. On December 31, 1991, \$10,000 in a non-interest bearing loan from the General Fund to the City's CDBG grant fund was authorized by the City Manager as interim financing. In addition, the General Fund had reserves for Petty Cash, prepaid insurance, police special funds and Travel Advance purposes. The Special Revenue Path and Trails Reserve fund balance is legally restricted for construction and maintenance of paths and trails within City right-of-way. The Special Revenue Hotel/Motel Lodging Tax fund balance is also legally restricted for solely paying for tourism promotion and for the acquisition and/or operation of tourism-related facilities.

### **Interfund Transactions**

There are four types of transactions between funds - interfund loans, interfund services provided and used, interfund reimbursements, and interfund transfers. Interfund loans are temporary borrowings of cash which do not affect operating statements, but which may incur interest expense or expenditure to the borrowing fund. Interfund services provided and used are equivalent to buying goods or services from an outside vendor, they are accounted for by the related funds as revenues, expenditures or expenses. Interfund reimbursements are repayments to a fund for expenditures or expenses that belong to another fund. They involve only expenditure or expense accounts. Operating transfers are the equivalent of operating subsidies.

Except for the Enterprise Fund, operating transfers are accounted for as "other financing sources and uses" and are therefore included in the operating statements.

## **NOTE 2 -- RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS**

### **Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets**

The governmental funds' balance sheet includes a reconciliation between *fund balance – total governmental funds and net assets – governmental activities* as reported in the government-wide statement of net assets. One element of

that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not reported in the funds." The details of this \$31,781,369 difference are as follows:

Bonds Payable at beginning of year	\$34,730,516
Plus: Inclusion of compensated absences	972,020
Less: Current year reduction of principal portion of debt	(3,927,624)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$31,774,913</u>

#### Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$13,877,028 difference are as follows:

Net Capital outlay	\$14,772,662
Governmental depreciation expense	<u>(976,200)</u>
Net adjustment to increase <i>net changes in fund balances – Total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$13,796,462</u>

Another element of the reconciliation states that "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." This item presents:

Property taxes earned reported as deferred in the fund statements	<u>\$ 205,317</u>
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Another element of the reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds." This item represents:

Compensated absences	<u>\$ 64,170</u>
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#### NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations in any of the funds of the City.

#### NOTE 4 – SUPPLEMENTAL APPROPRIATIONS

##### Operating Budget Funds

Appropriations established during 2004 for the City's operating budget funds are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts.

FUND	2004		
	ORIGINAL BUDGET	SUPPLEMENTAL APPROPRIATIONS	FINAL BUDGET
<i>General Fund</i>	\$ 33,384,445	3,340,048	\$ 36,724,493
<i>Special Revenue Funds:</i>			
Street Fund	3,872,635	173,414	4,046,049
Arterial Street Fund	1,786,882	483,750	2,270,632
Utility Tax Fund	5,994,897	1,274,000	7,268,897
Solid Waste/Recycling Fund	365,935	1,726	367,661
Hotel/Motel Lodging Tax	134,000	216,999	350,999
Paths and Trails Reserve Fund	-	65,000	65,000
<i>Subtotal Special Revenue Funds</i>	12,154,349	2,214,889	14,369,238
<i>Debt Service Fund</i>	4,868,850	2,645,781	7,514,631
	\$ 50,407,644	\$ 8,200,718	\$ 58,608,362

**NOTE 5 – DEPOSITS AND INVESTMENTS**

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2004 the City utilized all the above with the exception of bankers' acceptances as legal authorized investment instruments. The City's investment policies are described in Note 1.

**Cash and Deposits**

The City follows the practice of pooling cash and investments of all funds, except restricted funds and funds held with a trustee or in escrow, for investment purposes as disclosed in Note 1. At December 31, 2004, the equity in pooled cash and investments was \$57,299,151.

At year-end, the City had \$51,616,365 in cash and cash equivalents which consisted of investments with the State Pool of \$31,699,452; the Municipal Investor account with US Bank of \$19,879,153; the City's checking account bank balance prior to outstanding checks was \$1,202,077; and petty cash and change funds, advance travel fund and investigative fund totaling \$39,820. No deposits were uninsured or uncollateralized. Insurance coverage up to \$100,000 is through federal depository insurance and the Washington Public Deposit Protection Commission (WPDPC) for amounts over \$100,000. Under State statute, members of WPDPC, a multiple-financial institution collateral pool, may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. The Municipal Investor account with US Bank is protected under WPDPC.

At December 31, 2004, the City's total deposits and investments consisted of the following:

US Bank, Checking Account per Books	\$ (2,060)
Petty Cash/Change Fund/Advance Travel/Investigative Fund	39,820
Cash Equivalents with US Bank Municipal Investor Account	19,879,153
Cash Equivalents with State Treasurer's Investment Pool	31,699,452
Subtotal Cash and Cash Equivalents	<u>51,616,365</u>
Investments in US Government Agency	<u>5,682,786</u>
<i>Equity in Pooled Cash and Investments</i>	57,299,151
Cash with Escrow Agent	121,515
Total Cash and Investments	<u>\$ 57,420,666</u>

**Investments**

The City's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the City's investments at year-end categorized by risk. Category 1 includes investments that are either; insured, registered or held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the City's name. Category 3

includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent, but not in the City's name. At the end of the year, the City had no investments in category 2 or 3. All investments are stated at fair value. The fair value of the positions in the State Investment Pool is the same as the value of the pool shares. The State Investment Pool is managed by the Treasurer of the State of Washington.

An additional Municipal Investor Account (MIA) was established in July 2003 with a deposit of \$5 million as a Tenant Improvement Guarantee Account when the new City Hall building was purchased. These funds will remain in the account until the City receives the Certificate of Occupancy for the tenant improvement work. This account is directly competitive with short-term CD's Repo's and the funds are totally liquid as well as protected by both FDIC and WPDPC.

<u>City Securities</u>	<u>Risk Category</u>	<u>Carrying</u>	<u>Fair</u>
Agencies	1	Amount	Value
<i>Subtotal Categorized City Investments</i>	\$ 5,682,786	\$ 5,682,786	\$ 5,605,738
	5,682,786	5,682,786	5,605,738
Total Categorized Investments	<u>\$ 5,682,786</u>	<u>\$ 5,682,786</u>	<u>\$ 5,605,738</u>
Compensating Time Deposit with US Bank			-
Municipal Investor Account with US Bank		19,879,153	19,879,153
Investments in State Treasurers Investment Pool		31,699,452	31,699,452
Total Investments		<u>\$ 57,261,391</u>	<u>\$ 57,184,343</u>

#### NOTE 6 – RECEIVABLES AND DUE FROM OTHER GOVERNMENTS

##### Property Taxes

The King County Treasurer is responsible for collecting property taxes levied in the County by all taxing districts. Amounts collected by the County on the City's behalf are remitted daily.

As described in Note 1, taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2004, the total balance of property taxes receivable recorded by the City was \$524,120. Of this, \$205,317 is recorded as a deferred revenue, since it was not collected within the first 30 days of 2005. The property tax levy calendar in 2004 was:

##### PROPERTY TAX CALENDAR

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installment is due.

Property taxes are recorded as a receivable when levied, offset by deferred revenue. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 30 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the maximum levy (for general governmental services) is up to \$3.60 per \$1,000 of assessed valuation, subject to two limitations, set forth below. Since the City of Federal Way is not a full service city, the City is only allowed \$1.60. The remaining \$2.00 is for the fire district (\$1.50) and library district (\$.50).

- Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to

the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and

2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2004 was \$1.29 per \$1,000 on an assessed valuation of \$6,292,343,626 for a total regular levy of \$8,117,874

**Deferred Revenue**

Deferred revenue reported on the governmental funds balance sheet is in the schedule below. Contracted police overtime, grant reimbursements and refuse collection fees are receivable within one year of the end of the fiscal period.

	General	Street	Solid Waste & Recycling	Debt Service	Total
Contracted Police Overtime	\$ 190,057	\$ -	\$ -	\$ -	\$ 190,057
Property Tax	205,317	-	-	-	205,317
Public Safety Grants	10,794	18,354	-	-	29,148
Refuse Collection Fees	-	-	13,769	-	13,769
Federal Way Fire Department Buy-In of ValleyCom	-	-	-	308,370	308,370
Recreation Programs/Facility Rentals	6,851	-	-	-	6,851
	<u>\$ 413,019</u>	<u>\$ 18,354</u>	<u>\$ 13,769</u>	<u>\$ 308,370</u>	<u>\$ 753,512</u>

**Receivables & Due from Other Governments**

The receivables for the fiscal year ended December 31, 2004 on the government-wide statement of net assets are detailed in the following schedule. Of the property taxes receivable amount, \$248,991 is delinquent.

	General	Street	Utility Tax	Debt Service	City Facilities	Trans- portation	Nonmajor Govt'l	Proprietary	Total
Property Tax	\$ 524,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 524,120
Utility Tax	-	-	844,908	-	-	-	-	-	844,908
Gambling Tax	155,912	-	-	-	-	-	-	-	155,912
Recreation Programs/Facilities	(5,718)	-	-	-	-	-	-	35,527	29,809
Grants & Contributions	17,106	-	-	-	-	589,508	243,454	61,514	911,582
Construction Contract/Reimburse	-	-	-	-	-	226,182	-	-	226,182
Deferred Maintenance Deposit	-	-	-	202,345	-	-	-	-	202,345
Investment Interest	3,992	725	198	2,966	14,661	6,611	1,204	9,773	40,130
State Shared Revenue	1,102,728	117,723	-	-	-	-	55,499	-	1,275,950
King County District Court	1,395	-	-	-	-	-	-	-	1,395
WA State Criminal Justice Training Ctr	24,121	-	-	-	-	-	-	-	24,121
Surface Water Management Fees	-	-	-	-	-	-	-	87,354	87,354
	<u>\$ 1,823,655</u>	<u>\$118,448</u>	<u>\$845,106</u>	<u>\$205,311</u>	<u>\$ 14,661</u>	<u>\$ 822,301</u>	<u>\$ 300,157</u>	<u>\$ 194,168</u>	<u>\$ 4,323,807</u>

**NOTE 7 – DUE TO OTHER GOVERNMENTS**

At December 31, 2004, the City recorded \$73,980 as due to other governmental units as follows:

Description	Amount
<b>General Fund:</b>	
King County - Nov 2004 Election Costs	\$ 73,980
Subtotal General Fund	73,980
Total Due To Other Governments	\$ 73,980

**NOTE 8 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2004 was as follows:

Governmental Activities	Beginning Balance 1/1/2004	Depreciation Expense	Accumulated Depreciation Adjustments	Asset Increases	Asset Decreases	Ending Balance 12/31/2004
<b>Capital assets, not being depreciated:</b>						
Land	\$ 36,982,986	\$ -	\$ -	\$ 122,214	\$ -	\$ 37,105,200
Construction in progress	19,412,007	-	-	15,264,523	-	34,676,530
<b>Total capital assets not being depreciated</b>	<b>56,394,993</b>	<b>-</b>	<b>-</b>	<b>15,386,737</b>	<b>-</b>	<b>71,781,730</b>
<b>Capital assets, being depreciated:</b>						
Buildings	2,207,265	(264,524)	10,669	35,746	-	1,989,156
Improvements other than buildings	12,418,294	(827,470)	-	-	-	11,590,824
Machinery and Equipment	3,628,022	(1,023,709)	559,705	871,035	(613,444)	3,421,609
Infrastructure	711,522	(35,576)	-	-	-	675,946
<b>Total capital assets being depreciated-net</b>	<b>18,965,103</b>	<b>(2,151,279)</b>	<b>570,374</b>	<b>906,781</b>	<b>(613,444)</b>	<b>17,677,535</b>
	\$ 75,360,096	\$ (2,151,279)	\$ 570,374	\$ 16,293,518	\$ (613,444)	\$ 89,459,265

Business Type Activities	Beginning Balance 1/1/2004	Depreciation Expense	Accumulated Depreciation Adjustments	Asset Increases	Asset Decreases	Ending Balance 12/31/2004
<b>Capital assets, not being depreciated:</b>						
Land	\$ 5,818,294	\$ -	\$ -	\$ 43,401	\$ -	\$ 5,861,695
Construction in progress	1,672,109	-	-	2,505,893	-	4,178,002
<b>Total capital assets not being depreciated</b>	<b>7,490,403</b>	<b>-</b>	<b>-</b>	<b>2,549,294</b>	<b>-</b>	<b>10,039,697</b>
<b>Capital assets, being depreciated:</b>						
Buildings	2,409,729	(179,552)	-	-	-	2,230,177
Improvements other than buildings	32,104,122	(408,925)	-	35,775	-	31,730,972
Machinery and Equipment	41,789	(2,945)	-	-	-	38,844
<b>Total capital assets being depreciated-net</b>	<b>34,555,640</b>	<b>(591,422)</b>	<b>-</b>	<b>35,775</b>	<b>-</b>	<b>33,999,993</b>
	\$ 42,046,043	\$ (591,422)	\$ -	\$ 2,585,069	\$ -	\$ 44,039,690

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Government Activities</b>	
General Government	\$ 552,287
Security of Persons & Property	117,508
Transportation	70,505
Physical Environment	58,754
Economic Environment	188,013
Health	11,751
Culture & Recreation	1,152,462
<b>Total Depreciation - Governmental Activities</b>	<b>\$ 2,151,279</b>
<b>Business-Type Activities</b>	
Utilities - Surface Water Management	\$ 409,918
Culture & Recreation - Dumas Bay Centre	181,504
<b>Total Depreciation - Business-Type Activities</b>	<b>\$ 591,422</b>

## NOTE 9 – PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*.

### Public Employees' Retirement System (PERS) Plan I and 2

#### Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership is mandatory for all City employees working 70 hours per month for 5 months out of the twelve month period. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local government. The PERS system includes three plans. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 65 with five years of service, or at age 55 with 20 years of service, with an allowance of 2 percent per year of service of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of



65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vest	100,469
Active Plan Members Nonvested	54,081
<b>Total</b>	<b>239,913</b>

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates and Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates.

Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2003, were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	1.38%*	1.38%	1.38%**
Employee	6.00%	1.18%	***

\* The employer rates include the employer administrative expense fee currently set at 0.22%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and employees made the required contributions. The City's required contributions for the years ended December 31 were:

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</u>
2004	\$ 5,834	\$ 120,335	\$19,113
2003	\$ 6,239	\$ 118,973	\$10,900
2002	\$8,094	\$ 131,750	\$ 125

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2**

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full time, fully compensated, local law enforcement officers and fire fighters. LEOFF is comprised primarily of non-state employees.

LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employee and employer contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at age 50 with 20 years of service, or at age 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. The benefit is two percent of average salary per year of service. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at three percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	453
Active Plan Members Vest	11,548
Active Plan Members Nonvested	4,003
<b>Total</b>	<b>24,374</b>

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance

with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2004 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
Employer	0.22% *	3.25% **
Employee	0.00%	5.09%
State	N/A	2.03%

\* The employer rates do not include the employer administrative expense fee currently set at 0.22%.

\*\* The employer rate for ports and universities is 5.27%.

Both the City and employees made the required contributions. The City's required contributions for the years ended December 31 were:

	<u>LEOFF Plan I</u>	<u>LEOFF Plan II</u>
2004	\$0	\$256,308
2003	\$0	\$226,308
2002	\$0	\$205,913

**Other Local Government Pension Systems - City of Federal Way  
Employees' Retirement System**

Effective June 1, 1990, the Federal Way City Council established the Federal Way Employees' Retirement System, per City Ordinance 90-74 and as authorized by the Federal Social Security Act (42 USCA, Section 418 (g)). The Retirement System is a defined contribution pension plan established as an alternative to the Federal Social Security System.

During 2004, there were a total of 330 individuals covered by this system. As of the end of the year, 304 remained as active employees of the City and none were drawing retirement benefits. The 26 inactive had left the City's employment and either had been reimbursed their contributions, or the reimbursement was pending, or they elected to have their contributions remain in the plan if the balance was \$5,000 or greater.

All regular employees of the City of Federal Way are required to participate in the system, with the City matching the employee's required contribution. The employee pays 6.2% and this is matched by the composite of a cash match (approximately 5.2%) and insurance payments (1%) for disability, survivor, accidental death and dismemberment, and lump sum death benefit coverage. Contributions into the plan are tax deferred.

Employees are entitled to make voluntary contributions to the plan, assuming that highly compensated and non-highly compensated employees are treated equally. Each payroll period, employees may make a voluntary contribution equal to a minimum of 1% of the participant's compensation, not to exceed 10% of the participant's compensation.

Covered payroll for 2004 was \$15,713,804 and total City payroll was \$17,968,583. Actual City contributions for the year were \$934,369. Actual employee contributions were \$1,114,056. All contributions were invested in instruments arranged through independent investment advisors selected by the Municipal Employers Benefit Trust (MEBT) committee comprised of the cities of Bellevue, Kirkland, Redmond, Edmonds, Mill Creek, Woodinville, and Federal Way but administered by Trautmann Maher & Associates. Retirement System assets are not the property of the City and are not subject to the claims of the City's general creditors. The Federal Way Retirement System assets are with Security Trust Company, N.A. who invests Plan assets.

In July 1995, the City implemented the hardship withdrawal and loan provision program. Loans receivable as of December 31, 2004 were \$923,680.

The consulting actuary firm of Trautmann, Maher & Associates has been contracted to provide record keeping, administrative and consulting services related to the Plan.

Actuarial determinations are not required because accidental death and dismemberment insurance, long-term disability, survivor income insurance and the lump sum death benefit are provided by a group insurance policy with Standard Insurance Company; and benefits paid to participants upon retirement are limited to: (a) a nonforfeitable, nontransferable annuity contract purchased by the plan's trustee, (b) retirement benefits payable from the employee's account to which no contributions by the City or the participant can be added after retirement, or a single lump-sum payment equal to the accumulated balance in the employee's account as of his retirement date.

#### **NOTE 10 – RISK MANAGEMENT**

The City uses the Risk Management Internal Service Fund to account for its risk financing activities. The City maintains insurance against most normal hazards except for unemployment insurance where it has elected to become fully self-insured. Related premiums received by the Risk Management Fund are used to reimburse the State Employment Security Department for unemployment benefits paid to eligible individuals, and to establish reserves for the payment of estimated future unemployment claims liability.

Through its Risk Management Fund, the City is also recovering insurance premium costs for general liability coverage and building reserves for a future general liability self-insurance program. The City's insurance coverage in 2004 remained relatively similar to the coverage for 2003. There were no settlements in excess of insurance for commercially insured activities for 1996 through 2004.

During 2004 the City purchased commercial insurance policies from commercial insurers. The following is a summary of coverage in force in 2004.

NAME OF COMPANY	DETAILS OF COVERAGE	LIABILITY LIMITS
St. Paul Fire and Marine Insurance Company	Pubic Entity Management Liability Protection	\$10,000,000 Each Claim & Aggregate Annually. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Public Official Bond Management Service Director	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Public Official Bond City Manager	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	General Liability, Auto Liability, Underinsured Motorists Liability and Law Enforcement Liability Coverage	\$10,000,000 Occurrence, \$20,000,000 Aggregate, \$1,000,000 Underinsured Motorists Coverage, \$1,000,000 Garagekeepers Legal Liability. All Limits are Per Occurrence/Aggregate Annually. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Property Coverage	Statement of Values Limit \$24,514,943, Business Income / Extra Expense \$1,000,000, Valuable Papers / Accounts Receivable \$1,000,000, Rental Income \$1,000,000, Electronic Data Processing \$1,000,000, Fine Arts \$1,000,000.
St. Paul Fire and Marine Insurance Company	Auto Liability and Physical Damage Coverage	Included in General Liability, Auto Liability and Law Enforcement Liability Above. Auto Physical Damage - Deductible \$1,000 Trucks / Fire Trucks / Ambulances, \$500 Pickups / Vans, \$250 Private Passenger
St. Paul Fire and Marine Insurance Company	Faithful Performance / Fidelity/Employee Dishonesty and ERISA Coverage	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Inland Marine	Limit of \$108,000. Deductible \$5,000
St. Paul Mercury Ins. Co.	Excess Liability Coverage	Included In General Liability Premium
St. Paul Fire and Marine Insurance Company	Boiler & Machinery Coverage	\$10,000,000 Per Accident, \$50,000 Perishable Goods, \$1,000,000 Hazardous Substances, \$100,000 CFC Refrigerants, Deductible \$2,500 Each Accident, Extended Business Income 30 Days, Newly Acquired Locations 365 Days, Service Interrup
St. Paul Fire and Marine Insurance Company	Employer/Stop Gap Liability Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above
St. Paul Fire and Marine Insurance Company	Public Officials Bond - City Clerk	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Public Officials Bond - Chief of Police	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000
St. Paul Fire and Marine Insurance Company	Law Enforcement Liability Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above
St. Paul Fire and Marine Insurance Company	Above Ground Pollution Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above

The City's industrial insurance is provided by Washington State and is administered by the Department of Labor and Industries. Coverage is purchased by means of standard rates per working hour and is computed by the total number of hours worked by employees multiplied by the basic premium rate assigned to the business risk classification. The following are benefits provided by industrial insurance: medical services, damaged clothing, travel expenses, time-loss payments, vocational rehabilitation, partial disability awards, pension awards and survivor benefits.

The City is self-insured for unemployment compensation. At December 31, 2004 the City had \$603,140 in reserve.

	2000	2001	2002	2003	2004
Unemployment Reserve, Jan. 1st	\$ 240,688	\$ 325,079	\$ 454,823	\$ 567,171	\$ 496,306
Unemployment compensation benefits	146,035	154,354	166,983	69,871	182,422
Claim payments during the year	(61,644)	(24,610)	(54,635)	(140,736)	(75,588)
Unemployment Reserve, Dec. 31st	\$ 325,079	\$ 454,823	\$ 567,171	\$ 496,306	\$ 603,140

**NOTE 11 – LONG-TERM DEBT**

The various categories of long-term debt reflected on the City's financial statements are briefly described in the following paragraphs.

General obligation bonds are backed by the City's full faith and credit. Proceeds are typically used for the acquisition or construction of major capital facilities or equipment. "Councilmanic Bonds" are general obligation bonds issued by City Council without voter approval. Under State law, repayment of these bonds must be financed from general City revenues since no additional property taxes can be levied to support related debt service payments. General Obligation bonds approved by the voters are typically repaid through an annual "excess" property tax levy authorized for this purpose by State statute. At year-end 2004 the City had no voter-approved bonds outstanding. All principal and interest payments on general obligation debts are recorded as expenditures by the City's Debt Service Fund.

**Refunded Debt**

At the beginning of the year, the balance of the 1993 limited general obligation bond for Saghalie Park was \$1,000,000. On December 1, 2004 the bond was retired early using real estate excise tax collections and temporarily underfunding reserves.

The following schedules detail the long-term debt activity and balances of the City.

OUTSTANDING GENERAL OBLIGATION DEBT - BY TYPE									
December 31, 2004									
Description	Bond Rating at Issuance	Issue Date	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed	Ending Outstanding Debt
<b>Governmental Activities:</b>									
<i>General Obligation Bonds:</i>									
1993 Limited	A1	14-Jun-93	1-Dec-08	2.70 - 5.70	\$ 2,390,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
1993 Refunding	A1	13-May-93	1-Dec-21	2.70 - 5.85	12,105,000	-	-	-	-
1995 Limited	A1	28-Dec-95	1-Dec-05	3.90 - 4.75	5,000,000	1,280,000	-	625,000	655,000
1996 Limited	A1	29-Feb-96	1-Dec-05	3.50 - 4.50	2,500,000	635,000	-	310,000	325,000
1997 Limited	AAA-insured	22-Apr-97	1-Dec-12	5.00 - 5.30	16,150,000	8,465,000	-	1,520,000	6,945,000
2000 Limited	A1	12-Sep-00	1-Dec-15	5.31	2,551,600	2,193,000	-	139,000	2,054,000
2003 Loan Assumption	Nonrated	1-Jul-03	1-Nov-07	7.58	6,168,599	6,137,026	-	88,134	6,048,892
2003 Limited	AAA-insured	15-Nov-03	1-Dec-33	4.676	15,000,000	15,000,000	-	225,000	14,775,000
<b>Subtotal GO Bonds</b>					<b>61,865,199</b>	<b>34,710,026</b>	<b>-</b>	<b>3,907,134</b>	<b>30,802,892</b>
<b>Governmental Activities:</b>									
<i>Certificates of Participation:</i>									
1999 Issue	AAA	1-Aug-99	1-Jun-04	5.16	184,000	20,490	-	20,490	-
<b>Subtotal COP's</b>					<b>184,000</b>	<b>20,490</b>	<b>-</b>	<b>20,490</b>	<b>-</b>
<b>Business-Type Activities:</b>									
<i>Public Works Trust Fund Loan:</i>									
PWTL - Kitts Corner Drain Imp		31-Aug-94	1-Jul-14	1.00	233,316	131,055	-	12,936	118,119
PWTL - Kitts Corner Drain Imp		24-Jul-96	1-Jul-14	1.00	1,166,580	714,950	-	64,679	650,271
PWTL - Kitts Corner Drain Imp		4-Sep-97	1-Jul-14	1.00	155,544	102,629	-	8,624	94,005
PWTL - SeaTac Mall Drain Imp		31-May-00	1-Jul-19	1.00	412,500	256,320	-	16,020	240,300
PWTL - SeaTac Mall Drain Imp		14-Aug-00	1-Jul-19	1.00	2,062,500	1,281,594	-	80,100	1,201,494
<b>Subtotal PWTFL</b>					<b>4,030,440</b>	<b>2,486,548</b>	<b>-</b>	<b>182,359</b>	<b>2,304,189</b>
<b>Grand Total All Long-Term Debt</b>					<b>\$ 66,079,639</b>	<b>\$ 37,217,064</b>	<b>\$ -</b>	<b>\$ 4,109,983</b>	<b>\$ 33,107,081</b>

OUTSTANDING GENERAL OBLIGATION DEBT - BY FUND						
December 31, 2004						
Description	Amount Originally Issued	Beginning Outstanding Debt	Amount Issued	Amount Redeemed *	Ending Outstanding Debt	Due within one year
<b>Governmental Long-Term Debt:</b>						
1999 COP Issue	184,000	20,490	-	20,490	-	\$ -
1993 Limited	2,390,000	1,000,000	-	1,000,000	-	-
1993 Refunding	12,105,000	-	-	-	-	-
1995 Limited	5,000,000	1,280,000	-	625,000	655,000	655,000
1996 Limited	2,500,000	635,000	-	310,000	325,000	325,000
1997 Limited	16,150,000	8,465,000	-	1,520,000	6,945,000	1,600,000
2000 Limited	2,551,600	2,193,000	-	139,000	2,054,000	146,000
2003 Loan Assumption	6,168,599	6,137,026	-	88,134	6,048,892	83,088
2003 Limited	15,000,000	15,000,000	-	225,000	14,775,000	285,000
<b>Total Governmental Long-Term Debt</b>	<b>62,049,199</b>	<b>34,730,516</b>	<b>-</b>	<b>3,927,624</b>	<b>30,802,892</b>	<b>3,094,088</b>
<b>Business-Type Long-Term Debt:</b>						
<i>Enterprise Funds:</i>						
Public Works Trust Fund Loan	4,030,440	2,486,548	-	182,359	2,304,189	182,359
<b>Grand Total All Long-Term Debt</b>	<b>\$ 66,079,639</b>	<b>\$ 37,217,064</b>	<b>\$ -</b>	<b>\$ 4,109,983</b>	<b>\$ 33,107,081</b>	<b>\$ 3,276,447</b>

\*Principal payments in the Debt Service Fund does not include payment on the 2000 limited general obligation bond. Valley Com paid the debt service using excess reserves, therefore participating cities were not required to pay. In addition, the City recognized credits of \$20,580 based an interlocal agreement with Federal Way Fire District to participate with the City in capital cost obligations with Valley Communications joint venture.

SCHEDULE OF CHANGES IN LONG-TERM DEBT				
Period Ended December 31, 2004				
	Beginning Outstanding Debt	Additions	Reductions	Ending Outstanding Debt
<b>Governmental Activities:</b>				
General Obligation Bonds	\$ 34,710,026	\$ -	\$ (3,907,134)	\$ 30,802,892
Certificates of Participation	20,490	-	(20,490)	-
Employee Leave Benefits	977,872	74,714	-	1,052,586
<b>Total Governmental Activities</b>	<b>35,708,388</b>	<b>74,714</b>	<b>(3,927,624)</b>	<b>31,855,478</b>
<b>Business-Type Activities:</b>				
<i>Enterprise Funds</i>				
Public Works Trust Fund Loan	2,486,548	-	(182,359)	2,304,189
Employee Leave Benefits	36,601	36,394	-	72,995
<b>Total Business-Type Activities</b>	<b>2,523,149</b>	<b>36,394</b>	<b>(182,359)</b>	<b>2,377,184</b>
<b>Total All Funds</b>	<b>\$ 38,231,537</b>	<b>\$ 111,108</b>	<b>\$ (4,109,983)</b>	<b>\$ 34,232,662</b>

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY							
As of December 31, 2004							
Year	Governmental Activities		Business-Type Activities		Grand Total		
	G. O. Bonds		PW Trust Fund				P&I
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	3,094,088	1,491,839	182,359	23,042	3,276,447	1,514,881	4,791,328
2006	2,219,676	1,418,843	182,359	21,218	2,402,035	1,440,062	3,842,096
2007	8,094,128	1,232,342	182,359	19,395	8,276,487	1,251,736	9,528,224
2008	807,000	787,112	182,359	17,571	989,359	804,683	1,794,042
2009 - 2013	4,179,000	3,374,173	911,796	60,502	5,090,796	3,434,674	8,525,470
2014 - 2018	2,474,000	2,626,230	566,838	20,086	3,040,838	2,646,316	5,687,154
2019 - 2013	2,530,000	2,113,629	96,120	961	2,626,120	2,114,590	4,740,710
2024 - 2028	3,240,000	1,466,033	-	-	3,240,000	1,466,033	4,706,033
2029 - 2033	4,165,000	613,700	-	-	4,165,000	613,700	4,778,700
<b>Total</b>	<b>\$ 30,802,892</b>	<b>\$ 15,123,900</b>	<b>\$ 2,304,190</b>	<b>\$ 162,775</b>	<b>\$ 33,107,081</b>	<b>\$ 15,286,675</b>	<b>\$ 48,393,756</b>

**Computation of Legal Debt Margin**

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting, 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy.

The City's legally remaining debt capacities as of December 31, 2004 are:

General Government (no vote required)	\$	67,504,069
General Government (3/5 majority vote required)		62,923,436
Parks and Open space (3/5 majority vote required)		157,308,591
Utilities (3/5 majority vote required)		157,308,591
Total Capacity	\$	<u>445,044,686</u>

**Compensated Absences**

The City's liability for accrued vacation and compensatory time balances is recorded in the schedule below. Accrued compensated absences for proprietary fund employees are recorded as liabilities in those funds expected to incur the related future expense.

Governmental Activities	\$	1,052,586
Business-Type Activities		<u>72,995</u>
	\$	<u>1,125,581</u>

**Estimated Arbitrage Rebate**

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt of over \$5 million to make payments to the United States Treasury of investment interest received at yields that exceed the issuer's tax-exempt borrowing rates. Payments of arbitrage rebate amounts due under these regulations must be made to the U.S. Treasury every five years.

The City's estimated rebatable arbitrage amount as of December 31, 2004 is \$-0- for its tax-exempt general obligation bond issues subject to the Tax Reform Act issued through that date.

**Leases**

The City of Federal Way leases office buildings and land which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the City's capital assets. Total Cost for the leases was \$252,785 for the year ended December 31, 2004. The future lease payments have significantly decreased because the City is no longer paying rental/lease fees for The Police and Fire departments. The City purchased and renovated the Paragon Building which is now the New City Hall. The future minimum lease payments for these leases are as follows:

2005	\$6,000
2006	<u>6,000</u>
	<u>\$12,000</u>



**NOTE 12 – INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2004 were as follows:

Interfund Transfers	In	Out
<b>Governmental Funds:</b>		
General Fund	\$ 530,468	\$ 5,244,666
Street Fund	2,098,378	24,409
Utility Tax Fund	-	7,215,336
Debt Service	4,247,926	1,625,000
City Facilities	3,448,370	449,068
Transportation	3,047,625	2,770
Nonmajor Governmental Funds	2,242,872	1,422,332
<b>Proprietary Funds:</b>		
Surface Water Management	-	638
Dumas Bay Centre	225,310	1,866
Internal Service Funds	158,243	13,107
	<b>\$ 15,999,192</b>	<b>\$ 15,999,192</b>

*Note: Amounts shown as transfers in the internal service funds represent capital contributions and are shown as such in the operating statements.*

The following describes the significant amounts transferred during 2004:

**General Fund Transfers Out:**

- \$663,370 to new City Hall Capital Project
- \$2,075,000 to Transportation Capital Projects
- \$160,000 to City Facilities Capital Project Fund - Community Center
- \$1,912,755 to Street Fund to subsidize street maintenance
- \$118,106 to Internal Service Funds for capital purchases
- \$200,000 to City Facilities Capital Project Fund - Evidence Building

**Utility Tax Fund:**

- \$4,247,925 to Debt Service Fund for prefunding 1995, 1996 & 1997 GO bond debt service payments
- \$231,843 to General Fund for Celebration Park maintenance & operations
- \$1,193,804 to Arterial Street Fund overlay program
- \$182,852 to Street Fund for maintenance on bond projects
- \$100,000 to Dumas Bay Centre Fund for Knutzen Family Theatre subsidy
- \$283,910 to General Fund to subsidize Kenneth Jones Pool Operations
- \$975,000 to Community Center Capital Project

**Debt Service Fund:**

- \$535,000 of excess Real Estate Excise Tax to fund various Parks Capital Projects, including Thompson and Armstrong neighborhood parks, historical cabins, parks major maintenance, downtown park, and bike facility
- \$100,000 of excess Real Estate Excise Tax to Community Center Capital Project
- \$620,000 to various Transportation Capital Projects
- \$120,000 to Dumas Bay Centre/Knutzen Family Theatre Rehabilitation CIP
- \$250,000 to new City Hall Capital Project

**City Facilities CIP Fund:**

- \$499,068 to the 2% for the Arts Fund for various arts programs

**Nonmajor Governmental Funds:**

- \$1,00,000 from Arterial Street Fund to New City Hall Capital Project for road improvements

- \$155,322 from Capital Projects – Traffic to Capital Projects – Streets
- \$65,000 from Paths and Trails to Armstrong Capital Project – Parks
- \$59,000 from Arterial Street fund to Transportation Capital Project Fund
- \$138,303 from CDBG Fund to Transportation Capital Project Fund

Interfund loans for the year ended December 31, 2004 were as follows:

Interfund Loans	Receivable	Payable
General Fund	\$ 10,000	\$ -
Special Revenue Funds:		
Community Development Block Grant	-	10,000
<b>Total Interfund Loans</b>	<b>\$ 10,000</b>	<b>\$ 10,000</b>

**NOTE 13 – CONTINGENCIES AND LITIGATION**

As of December 31, 2004 there were a small number of claims for damages and lawsuits pending against the City. In the opinion of the City Attorney, however, neither the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending would materially affect the financial condition of the City. Due to both their uncertainty and immateriality, no liabilities or estimated liabilities have been included in the City's financial statements.

**NOTE 14 – JOINT VENTURE**

The “Valley Communications Center” was established August 20, 1976, when an Interlocal Agreement was entered into by the four original participating municipal corporations, including the cities of Renton, Kent, Auburn, and Tukwila, and Federal Way which was formally admitted during 2000. The agreement is sanctioned by the provisions and terms of the Interlocal Cooperation Act pursuant to RCW 39.34. The initial duration of the agreement was five years, and thereafter is automatically extended for consecutive five year-periods.

In addition to serving the emergency communications needs of the five member cities, Valley Com serves several other subscribing agencies, which include King County Fire Districts #2, #20, #26, #40, #43, #44, #47; City of Pacific Police and Fire Departments, City of Algona Police Department, City of Des Moines Police Department, City of Black Diamond Police and Fire Department; SeaTac Fire Department; North Highline Fire Department; King County EMS Units; and Vashon Island Fire Department. Separate agreements between Valley Com and the subscribing agencies have been executed, which set forth conditions of services and rates charged.

The allocation of prorated financial participation among the five member cities is the percentage of dispatched calls attributed to each jurisdiction compared to the total estimated dispatched calls, for the current twelve month period ending December 31. The percentages are applied to the current approved budget, less revenue from all other sources. Distribution of the current year net income is based on the same percentages. The 2004 cost distributions for the five member cities are as follows:

City	Dispatchable Calls	Percent of Total
Kent	94,658	27.82%
Renton	63,950	18.80%
Auburn	68,074	20.01%
Tukwila	37,015	10.88%
Federal Way	76,524	22.49%
<b>Total</b>	<b>340,221</b>	<b>100.00%</b>

Valley Com is governed by an Administration Board, composed of the Mayors or designated representatives from the five participating cities of Federal Way, Renton, Kent, Auburn, and Tukwila. The Administration Board is authorized to establish bylaws that govern procedures of the Board and Valley Com’s general operations for the

following functions: 1) Budget review and recommendations to the legislative bodies of the member cities, and budget adoption after each legislative body has approved the required financial participation for the ensuing year; 2) Approve appointment and/or discharge of the Director; 3) Approve personnel policy and make final decisions on all major policy changes; and 4) Review and approves all contracts.

In addition, an Operations Board provides administration, and consists of a member from each participating city's police and fire departments, including the directors of such departments or their designees. Also on the Operations Board is an appointed representative of the Police and Fire contract agencies. The Operations Board performs the following functions: 1) Oversees the general operation of Valley Com, and advises and makes recommendations to the Administration Board; 2) Make recommendations on Director selection; 3) Presents proposed policies and budgets to the Administration Board; and 4) Reviews disbursements of funds by the Director.

The Director presents a proposed budget to the Operating Board on or before August 15 of each year. Said budget is then presented to the Administrative Board by September 1 of each year. The Administration Board can make changes to the proposed Valley Com budget as it finds necessary, but final approval falls to the legislative body of each member city, in accordance with the provisions of the interlocal agreement.

The following condensed financial information is from Valley Communications Center comprehensive annual financial report for the fiscal year ended December 31, 2003. Audited 2003 financial statements are available from Valley Communications Center, 27519 108<sup>th</sup> Avenue SE, Kent, WA 98030, or telephone (253) 372-1300.

<b>Valley Communications Center</b>	
<b>Balance Sheet</b>	
<b>As of December 31, 2004</b>	
<b>Assets</b>	
Current Assets	11,438,376
Plant, Property, and Equipment	12,614,982
<b>Total Assets</b>	<b>24,053,358</b>
<b>Liabilities &amp; Fund Equity</b>	
Current Liabilities	393,810
<b>Total Liabilities</b>	<b>393,810</b>
<b>Retained Earnings</b>	
Reserved for:	
Equipment Replacement	2,886,852
Contingency	747,154
Building Project	1,194,924
800 MHZ	5,596,874
Unreserved	13,233,744
<b>Total Fund Equity</b>	<b>23,659,548</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 24,053,358</b>

<b>Valley Communications Center</b>	
<b>Statement of Revenue, Expenses, and Changes in Fund Equity</b>	
<b>For the Year Ending December 31, 2004</b>	
<b>Operating Revenues</b>	
Charges for Intergovernmental Services	\$ 8,738,391
<b>Total Operating Revenue</b>	<b>8,738,391</b>
<b>Operating Expenses</b>	
Salaries & Benefits	5,784,209
Other Operation & Maintenance	1,511,529
Payroll Taxes	178,812
Depreciation	1,988,100
<b>Total Operating Expenses</b>	<b>9,462,650</b>
<b>Income (Loss) from Operations</b>	<b>(724,259)</b>
<b>Non-Operating Revenues (Expenses)</b>	
Interest Revenue	165,420
Leasehold Revenue	23,447
Construction Funds	53,055
Gain (Loss) from Sale of Fixed Assets	(89,442)
Other Non-Operating Revenue	(1,053,959)
<b>Total Non-Operating Revenue</b>	<b>(901,479)</b>
<b>Capital Contributions</b>	
Return of original investment to principals on old bldg	(455,013)
Payment of debt service on behalf of principals	(1,250,345)
<b>Net Income (loss)</b>	<b>(3,331,096)</b>
Retained Earnings at Beginning of Year	26,990,644
Retained Earnings at End of Year	23,659,548
<b>Total Fund Equity at End of Year</b>	<b>\$ 23,659,548</b>

The share of equity belonging to the five participating cities is shown below. Liabilities are the responsibility of the five participating cities in direct proportion to their equity position.

	Kent	Renton	Auburn	Tukwila	Federal Way	Total
Equity @ January 1, 2004	\$ 6,181,790	\$ 4,583,805	\$ 4,312,119	\$ 2,990,245	\$ 2,532,720	\$ 20,600,679
Current Year Decrease	(512,594)	(464,331)	(470,813)	(421,998)	(509,429)	(2,379,165)
Equity @ December 31, 2004	\$ 5,669,196	\$ 4,119,474	\$ 3,841,306	\$ 2,568,247	\$ 2,023,291	\$ 18,221,514
Percent of Equity	31.11%	22.61%	21.08%	14.09%	11.10%	100.00%
Percent of 2004 Distribution	27.82%	18.80%	20.01%	10.88%	22.49%	100.00%

In May 1993 Valley Com entered into an agreement with King County to provide joint project management for the acquisition and installation of 800-MHz emergency radio communications system approved by the voters of King County in conjunction with a \$57 million levy. In August 1993 Valley Com also entered into an Interlocal Cooperation Agreement with the subregions of King County, Seattle, and Eastside Public Safety Communications, which governs the development and installation of the new 800-MHz emergency radio system. Valley Com now provides emergency communication dispatch services to a population of approximately 570,000.

Valley Com operates as an enterprise fund and is totally self supporting through the implementation of user fees and the primary source of revenue is provided by charges for calls for service. The 800-MHz emergency radio communications system operated by the agreement with King County is operated as a separate enterprise fund, and the Member Cities have no equity interest in the contributed capital from this system.

**NOTE 15 -- SUBSEQUENT EVENTS**

On November 2, 2004 voters approved the North Lake, Redondo East and Parkway annexations. The cities officially joined the City January 1, 2005 adding an additional 2,730 residents to the City's population.

**Combining Statement – Nonmajor Governmental Funds’s Description  
For the Year Ended December 31, 2004**

**Special Revenue Funds**

Special Revenue funds are used to account for the proceeds of revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Arterial Street Fund* accounts for the receipt and expenditure of the State-levied motor vehicle fuel tax distributed to the City in accordance with State R.C.W. 82.36.020. These revenues are to be used for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets, or for the payment of related municipal indebtedness.

The *Solid Waste/Recycling Fund* was established to account for special refuse collection fees used to manage the Solid Waste and Recycling program.

The *Special Contracts/Studies Fund* accounts for receipts and disbursements related to special contracts and special projects where completion will extend beyond the calendar year.

The *Hotel/Motel Lodging Tax Fund* was established to account for all lodging tax receipts and disbursements related to tourism promotion and acquisition and/or operation of tourism-related facilities.

The *2% Percent for Arts Fund* was established for the purpose of providing funding for arts projects. The funds are to be used to create a variety of cultural opportunities for citizens and to enhance the cultural environment in the community by encouraging and promoting the creation and placement of art in public places and the incorporation of art into project design.

The *Community Development Block Grant Fund* accounts for the receipt and disbursement of federal grant revenue received through the Department of Housing and Urban Development's Community Development Block Grant Program. Separate subsidiary records are maintained to administer the individual projects accounted for in this fund.

The *Path and Trails Reserve Fund* was established in accordance with State law to accumulate unexpended proceeds of the City's ½% motor vehicle fuel tax receipts which are restricted in use to the construction and maintenance of paths and trails within City right-of-way.

**Capital Projects Funds**

The Capital Project Funds account for the acquisition or construction of major capital facilities with the exception of those facilities financed by proprietary and trust funds. The major sources of revenue for this fund are general obligation bond proceeds, grants from other agencies, local taxes and contributions from other funds.

The *Parks CIP Fund* was established to account for receipts and disbursements related to acquisition, design, construction and any other related parks capital project expenditures.

The *Traffic CIP Fund* was established to account for receipts and disbursements related to acquisition, design, construction and any other related traffic project expenditures.



**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2004**

	Special Revenue	Capital Projects	Comparative Totals	
			2004	2003
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 664,067	\$ 1,215,286	\$ 1,879,353	\$ 1,633,791
Receivables (net):				
Accounts and contracts	-	-	-	100,000
Interest	312	892	1,204	1,548
Due from other governments	238,410	60,543	298,953	567,006
<b>TOTAL ASSETS</b>	<b>902,789</b>	<b>1,276,721</b>	<b>2,179,510</b>	<b>2,302,345</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Vouchers payable	147,446	84,173	231,619	150,117
Accounts/payroll payable	6,099	-	6,099	26,944
Retainage payable	-	464	464	33,711
Interfund loans payable	10,000	-	10,000	10,000
Deferred revenue	13,769	-	13,769	27,273
<b>TOTAL LIABILITIES</b>	<b>177,314</b>	<b>84,637</b>	<b>261,951</b>	<b>248,045</b>
<b>Fund balance:</b>				
<b>Reserved:</b>				
Hotel/motel lodging tax	175,196	-	175,196	216,999
Paths & Trails	5,629	-	5,629	61,131
<b>Unreserved:</b>				
Capital projects funds	-	1,192,084	1,192,084	675,755
Special revenue funds	544,650	-	544,650	1,100,415
<b>TOTAL FUND BALANCES</b>	<b>725,475</b>	<b>1,192,084</b>	<b>1,917,559</b>	<b>2,054,300</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 902,789</b>	<b>\$ 1,276,721</b>	<b>\$ 2,179,510</b>	<b>\$ 2,302,345</b>

**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**DECEMBER 31, 2004**

	Arterial Street	Solid Waste Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax	2% for the Arts	Community Development Block Grant	Paths and Trails Reserve	Comparative Totals	
								2004	2003
<b>ASSETS</b>									
Equity in pooled cash & investments	\$ 20,870	\$ 79,849	\$ 35,132	\$ 165,421	\$ 348,143	\$ 9,781	\$ 4,871	\$ 664,067	\$ 904,451
Receivables (net):									
Interest	44	72	21	129	-	-	46	312	848
Due from other governments	45,118	53,175	-	9,669	-	129,736	712	238,410	207,006
<b>TOTAL ASSETS</b>	<b>66,032</b>	<b>133,096</b>	<b>35,153</b>	<b>175,219</b>	<b>348,143</b>	<b>139,517</b>	<b>5,629</b>	<b>902,789</b>	<b>1,112,305</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Vouchers payable	-	8,086	-	23	85,992	53,345	-	147,446	94,203
Accounts/payroll payable	-	6,099	-	-	-	-	-	6,099	26,944
Interfund loans payable	-	-	-	-	-	10,000	-	10,000	10,000
Deferred revenue	-	13,769	-	-	-	-	-	13,769	27,273
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>27,954</b>	<b>-</b>	<b>23</b>	<b>85,992</b>	<b>63,345</b>	<b>-</b>	<b>177,314</b>	<b>158,420</b>
<b>Fund balance:</b>									
<b>Reserved:</b>									
Hotel/motel lodging tax	-	-	-	175,196	-	-	-	175,196	216,999
Paths & Trails	-	-	-	-	-	-	5,629	5,629	61,131
<b>Unreserved:</b>									
Special revenue funds	66,032	105,142	35,153	-	262,151	76,172	-	544,650	675,755
<b>TOTAL FUND BALANCES</b>	<b>66,032</b>	<b>105,142</b>	<b>35,153</b>	<b>175,196</b>	<b>262,151</b>	<b>76,172</b>	<b>5,629</b>	<b>725,475</b>	<b>953,885</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 66,032</b>	<b>\$ 133,096</b>	<b>\$ 35,153</b>	<b>\$ 175,219</b>	<b>\$ 348,143</b>	<b>\$ 139,517</b>	<b>\$ 5,629</b>	<b>\$ 902,789</b>	<b>\$ 1,112,305</b>



**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUNDS**  
**DECEMBER 31, 2004**

	Parks	Traffic	Comparative Totals	
			2004	2003
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 1,215,286	\$ -	\$ 1,215,286	\$ 729,340
Receivables (net):				
Accounts and contracts	-	-	-	100,000
Interest	892	-	892	700
Due from other governments	60,543	-	60,543	360,000
<b>TOTAL ASSETS</b>	<b>1,276,721</b>	<b>-</b>	<b>1,276,721</b>	<b>1,190,040</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Vouchers payable	84,173	-	84,173	55,914
Retainage payable	464	-	464	33,711
<b>TOTAL LIABILITIES</b>	<b>84,637</b>	<b>-</b>	<b>84,637</b>	<b>89,625</b>
<b>Fund balance:</b>				
<b>Reserved:</b>				
Capital projects	1,192,084	-	1,192,084	1,100,415
<b>TOTAL FUND BALANCES</b>	<b>1,192,084</b>	<b>-</b>	<b>1,192,084</b>	<b>1,100,415</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,276,721</b>	<b>\$ -</b>	<b>\$ 1,276,721</b>	<b>\$ 1,190,040</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2004**

	Special Revenue	Capital Projects	Comparative Totals	
			2004	2003
<b>REVENUES</b>				
Taxes	\$ 142,030	\$ -	\$ 142,030	\$ 138,975
Intergovernmental	1,161,924	60,543	1,222,467	1,957,930
Service charges and fees	255,039	-	255,039	288,828
Development fees	-	93,446	93,446	201,225
Interest	8,021	17,792	25,813	40,940
Other	23	-	23	55
<b>TOTAL REVENUES</b>	<b>1,567,037</b>	<b>171,781</b>	<b>1,738,818</b>	<b>2,627,953</b>
<b>EXPENDITURES</b>				
Current:				
General government	313,371	-	313,371	158,042
Physical environment	289,921	-	289,921	320,679
Transportation	1,184,765	-	1,184,765	1,982,519
Economic environment	186,625	-	186,625	107,538
Culture and recreation	196,627	-	196,627	27,689
Capital outlay	-	524,790	524,790	1,983,559
<b>TOTAL EXPENDITURES</b>	<b>2,171,309</b>	<b>524,790</b>	<b>2,696,099</b>	<b>4,580,026</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(604,272)</b>	<b>(353,009)</b>	<b>(957,281)</b>	<b>(1,952,073)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,642,872	600,000	2,242,872	2,056,289
Transfers out	(1,267,010)	(155,322)	(1,422,332)	(116,306)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>375,862</b>	<b>444,678</b>	<b>820,540</b>	<b>1,939,983</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(228,410)</b>	<b>91,669</b>	<b>(136,741)</b>	<b>(12,090)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>953,885</b>	<b>1,100,415</b>	<b>2,054,300</b>	<b>2,066,390</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 725,475</b>	<b>\$ 1,192,084</b>	<b>\$ 1,917,559</b>	<b>\$ 2,054,300</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
For the Year Ended December 31, 2004**

	Arterial Street	Solid Waste/ Recycling	Special Contracts/ Studies	Hotel/Motel Lodging Tax	2% for the Arts	Community Development Block Grant	Paths and Trails Reserve	Comparative Totals	
								2004	2003
<b>REVENUES</b>									
Taxes	\$ -	\$ -	\$ -	\$ 142,030	\$ -	\$ -	\$ -	\$ 142,030	\$ 138,975
Intergovernmental	545,039	85,625	-	-	-	522,663	8,597	1,161,924	1,597,930
Service charges and fees	84,750	165,289	5,000	-	-	-	-	255,039	288,828
Miscellaneous:									
Interest	2,454	1,490	407	2,769	-	-	901	8,021	23,123
Other	-	-	-	23	-	-	-	23	55
<b>TOTAL REVENUES</b>	<b>632,243</b>	<b>252,404</b>	<b>5,407</b>	<b>144,822</b>	<b>-</b>	<b>522,663</b>	<b>9,498</b>	<b>1,567,037</b>	<b>2,048,911</b>
<b>EXPENDITURES</b>									
Current:									
General government	-	-	(22)	-	-	313,393	-	313,371	158,042
Physical environment	-	289,921	-	-	-	-	-	289,921	320,679
Transportation	1,184,765	-	-	-	-	-	-	1,184,765	1,982,519
Economic environment	-	-	-	186,625	-	-	-	186,625	107,538
Culture and recreation	-	-	-	-	196,627	-	-	196,627	27,689
Capital outlay	-	-	-	-	-	-	-	-	723,807
<b>TOTAL EXPENDITURES</b>	<b>1,184,765</b>	<b>289,921</b>	<b>(22)</b>	<b>186,625</b>	<b>196,627</b>	<b>313,393</b>	<b>-</b>	<b>2,171,309</b>	<b>3,320,274</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(552,522)</b>	<b>(37,517)</b>	<b>5,429</b>	<b>(41,803)</b>	<b>(196,627)</b>	<b>209,270</b>	<b>9,498</b>	<b>(604,272)</b>	<b>(1,271,363)</b>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers in	1,193,804	-	-	-	449,068	-	-	1,642,872	1,108,807
Transfers out	(1,059,000)	(116)	-	-	-	(142,894)	(65,000)	(1,267,010)	(116,306)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>134,804</b>	<b>(116)</b>	<b>-</b>	<b>-</b>	<b>449,068</b>	<b>(142,894)</b>	<b>(65,000)</b>	<b>375,862</b>	<b>992,501</b>
<b>NET CHANGE IN FUND BALANCE:</b>	<b>(417,718)</b>	<b>(37,633)</b>	<b>5,429</b>	<b>(41,803)</b>	<b>252,441</b>	<b>66,376</b>	<b>(55,502)</b>	<b>(228,410)</b>	<b>(278,862)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>483,750</b>	<b>142,775</b>	<b>29,724</b>	<b>216,999</b>	<b>9,710</b>	<b>9,796</b>	<b>61,131</b>	<b>953,885</b>	<b>1,232,747</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 66,032</b>	<b>\$ 105,142</b>	<b>\$ 35,153</b>	<b>\$ 175,196</b>	<b>\$ 262,151</b>	<b>\$ 76,172</b>	<b>\$ 5,629</b>	<b>\$ 725,475</b>	<b>\$ 953,885</b>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
For the Year Ended December 31, 2004**

	Parks	Traffic	Comparative Totals	
			2004	2003
<b>REVENUES</b>				
Intergovernmental	\$ 60,543	\$ -	\$ 60,543	\$ 360,000
Development Contribution/Donation	93,446	-	93,446	201,225
Miscellaneous:				
Interest	17,792	-	17,792	17,817
<b>TOTAL REVENUES</b>	<b>171,781</b>	<b>-</b>	<b>171,781</b>	<b>579,042</b>
<b>EXPENDITURES</b>				
Capital Outlay	524,555	235	524,790	1,259,752
<b>TOTAL EXPENDITURES</b>	<b>524,555</b>	<b>235</b>	<b>524,790</b>	<b>1,259,752</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(352,774)</b>	<b>(235)</b>	<b>(353,009)</b>	<b>(680,710)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	600,000	-	600,000	947,482
Transfers out	-	(155,322)	(155,322)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>600,000</b>	<b>(155,322)</b>	<b>444,678</b>	<b>947,482</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>247,226</b>	<b>(155,557)</b>	<b>91,669</b>	<b>266,772</b>
<b>FUND BALANCES - BEGINNING</b>	<b>944,858</b>	<b>155,557</b>	<b>1,100,415</b>	<b>833,643</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 1,192,084</b>	<b>\$ -</b>	<b>\$ 1,192,084</b>	<b>\$ 1,100,415</b>

**Combining Statement – Internal Service Funds’s Description  
For the Year Ended December 31, 2004**

**Internal Service Funds**

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

The *Risk Management Fund* accounts for the City’s risk financing activities established to minimize adverse effects of losses associated with property and casualty, medical and dental, unemployment and worker’s compensation claims. Both risk control (to minimize the losses that strike and organization) and risk financing (to obtain finances to provide for or restore the economic damages of those losses) are involved. The City is currently self-insuring only State Unemployment Compensation. Related premiums received by the fund are used to reimburse the unemployment benefits paid to eligible individuals and to establish reserves for the payment of estimated future unemployment claims liability. The City is also currently recovering costs and building reserves for general liability including property, casualty, errors and omissions and fidelity coverage.

The *Information Systems Fund* was established to account for all costs associated with data processing, telecommunications and the Geographical Information System (GIS). This fund will own and depreciate all non-proprietary fund assets related to these functions, and will charge equipment/software users for both maintenance/operating costs and equipment replacement charges based on depreciation schedules.

The *Support Services Fund* will account for duplication, graphics and other general support services provided to departments and funds throughout the City.

The *Fleet and Equipment Fund* accounts for the cost of maintaining City vehicles and other motorized equipment. Rates charged to user departments are based on the full cost of maintaining equipment items, including the recovery of related depreciation expense.

The *Buildings and Furnishings Fund* accounts for all costs associated with the operation and maintenance of specified City buildings. City building facilities and furnishings will be owned by this Fund, and both maintenance/operating costs and depreciation recovery will be charged City departments and funds.

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
December 31, 2004

	Risk Management	Information Systems	Support Services	Fleet and Equipment	Buildings and Furnishings	Comparative Totals	
						2004	2003
<b>ASSETS</b>							
Current assets:							
Equity in pooled cash & investments	\$ 4,172,494	\$ 2,175,574	\$ 186,058	\$ 2,468,468	\$ 144,136	\$ 9,146,730	\$8,545,042
Prepaid postage	-	-	5,000	-	-	5,000	5,000
Receivables (net):	25,000	-	-	-	-	25,000	-
Interest	1,483	1,429	130	1,617	85	4,744	6,652
<b>TOTAL CURRENT ASSETS</b>	<b>4,198,977</b>	<b>2,177,003</b>	<b>191,188</b>	<b>2,470,085</b>	<b>144,221</b>	<b>9,181,474</b>	<b>8,556,694</b>
Noncurrent assets							
Capital assets:							
Machinery/furniture/equipment	-	4,702,796	186,898	4,478,313	3,430,014	12,798,021	12,504,686
Less accumulated depreciation	-	(3,279,312)	(100,989)	(2,609,159)	(2,319,622)	(8,309,082)	(7,704,378)
<b>TOTAL NONCURRENT ASSETS</b>	<b>-</b>	<b>1,423,484</b>	<b>85,909</b>	<b>1,869,154</b>	<b>1,110,392</b>	<b>4,488,939</b>	<b>4,800,308</b>
<b>TOTAL ASSETS</b>	<b>4,198,977</b>	<b>3,600,487</b>	<b>277,097</b>	<b>4,339,239</b>	<b>1,254,613</b>	<b>13,670,413</b>	<b>13,357,002</b>
<b>LIABILITIES</b>							
Current liabilities:							
Vouchers payable	48,232	42,027	12,210	16,950	34,456	153,875	129,149
Deposits Payable	-	-	-	-	500	500	-
Compensated absences payable	-	77,380	-	3,186	-	80,566	70,022
<b>TOTAL CURRENT LIABILITIES</b>	<b>48,232</b>	<b>119,407</b>	<b>12,210</b>	<b>20,136</b>	<b>34,956</b>	<b>234,941</b>	<b>199,171</b>
<b>TOTAL LIABILITIES</b>	<b>48,232</b>	<b>119,407</b>	<b>12,210</b>	<b>20,136</b>	<b>34,956</b>	<b>234,941</b>	<b>199,171</b>
<b>NET ASSETS</b>							
Invested in capital assets	-	1,423,483	85,908	1,869,155	1,110,392	4,488,938	4,800,308
Unrestricted	4,150,745	2,057,597	178,979	2,449,948	109,265	8,946,534	8,357,523
<b>TOTAL NET ASSETS</b>	<b>\$ 4,150,745</b>	<b>\$ 3,481,080</b>	<b>\$ 264,887</b>	<b>\$ 4,319,103</b>	<b>\$ 1,219,657</b>	<b>\$ 13,435,472</b>	<b>\$ 13,157,831</b>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**  
For the Year Ended December 31, 2004

	Risk	Information	Support	Fleet and	Buildings and	Comparative Totals	
	Management	Systems	Services	Equipment	Furnishings	2004	2003
<b>OPERATING REVENUES:</b>							
Service charges and fees	\$ 1,036,145	\$ 1,497,753	\$ 178,770	\$ 1,243,568	\$ 396,537	\$ 4,352,773	\$ 4,083,407
Miscellaneous	-	16,746	387	-	8,240	25,373	9,257
<b>TOTAL OPERATING REVENUES</b>	<b>1,036,145</b>	<b>1,514,499</b>	<b>179,157</b>	<b>1,243,568</b>	<b>404,777</b>	<b>4,378,146</b>	<b>4,092,664</b>
<b>OPERATING EXPENSES:</b>							
Personal services	-	644,821	-	38,311	13,387	696,519	683,031
Materials and supplies	98	51,433	20,206	266,462	23,132	361,331	307,639
Services and charges	430,360	336,555	118,820	327,262	311,303	1,524,300	1,370,706
Intergovernmental	-	89,345	-	310	5,780	95,435	65,767
Insurance	357,237	-	-	-	-	357,237	555,004
Claims	141,615	-	-	-	-	141,615	166,522
Depreciation	-	459,232	25,373	520,704	169,770	1,175,079	1,132,164
<b>TOTAL OPERATING EXPENSES</b>	<b>929,310</b>	<b>1,581,386</b>	<b>164,399</b>	<b>1,153,049</b>	<b>523,372</b>	<b>4,351,516</b>	<b>4,280,833</b>
<b>OPERATING INCOME (LOSS)</b>	<b>106,835</b>	<b>(66,887)</b>	<b>14,758</b>	<b>90,519</b>	<b>(118,595)</b>	<b>26,630</b>	<b>(188,169)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>							
Interest income	29,352	27,652	2,561	31,798	1,656	93,019	101,090
Gains/losses from disposal of fixed assets	-	-	-	(6,269)	440	(5,829)	18,190
<b>TOTAL NON-OPERATING REVENUES NET OF EXPENSES</b>	<b>29,352</b>	<b>27,652</b>	<b>2,561</b>	<b>25,529</b>	<b>2,096</b>	<b>87,190</b>	<b>119,280</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	<b>136,187</b>	<b>(39,235)</b>	<b>17,319</b>	<b>116,048</b>	<b>(116,499)</b>	<b>113,820</b>	<b>(68,889)</b>
Transfers out	-	-	-	(13,107)	-	(13,107)	(984,000)
Capital contributions	-	110,375	-	40,999	25,554	176,928	465,404
<b>CHANGE IN NET ASSETS</b>	<b>136,187</b>	<b>71,140</b>	<b>17,319</b>	<b>143,940</b>	<b>(90,945)</b>	<b>277,641</b>	<b>(587,485)</b>
<b>TOTAL NET ASSETS, BEGINNING</b>	<b>4,014,558</b>	<b>3,409,940</b>	<b>247,568</b>	<b>4,175,163</b>	<b>1,310,602</b>	<b>13,157,831</b>	<b>13,745,316</b>
<b>TOTAL NET ASSETS, ENDING</b>	<b>\$ 4,150,745</b>	<b>\$ 3,481,080</b>	<b>\$ 264,887</b>	<b>\$ 4,319,103</b>	<b>\$ 1,219,657</b>	<b>\$ 13,435,472</b>	<b>\$ 13,157,831</b>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2004

	Risk	Information	Support	Fleet and	Buildings and	Comparative Totals	
	Management	Systems	Services	Equipment	Furnishings	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from users	\$ 1,011,145	\$ 1,497,753	\$ 178,770	\$ 1,243,568	\$ 396,537	\$ 4,327,773	\$ 4,083,907
Cash payments to suppliers for goods and services	(798,128)	(457,640)	(144,124)	(593,800)	(319,385)	(2,313,077)	(2,238,307)
Cash payments to employees	-	(636,339)	-	(36,249)	(13,387)	(685,975)	(675,693)
Cash payments to claimants	(141,615)	-	-	-	-	(141,615)	(166,522)
Cash payments to other funds for goods and services	-	-	-	-	-	-	(80,748)
Other operating receipts	-	16,746	387	-	8,240	25,373	9,257
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>71,402</u>	<u>420,520</u>	<u>35,033</u>	<u>613,519</u>	<u>72,005</u>	<u>1,212,479</u>	<u>931,894</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers out	-	-	-	(13,107)	-	(13,107)	(984,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,107)</u>	<u>-</u>	<u>(13,107)</u>	<u>(984,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Acquisition of capital assets	-	(357,998)	(26,591)	(480,208)	(12,629)	(877,426)	(1,065,183)
Cash contributions for capital acquisitions	-	119,122	-	26,015	13,107	158,244	252,829
Proceeds from sale of fixed assets	-	-	-	26,132	440	26,572	18,190
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(238,876)</u>	<u>(26,591)</u>	<u>(428,061)</u>	<u>918</u>	<u>(692,610)</u>	<u>(794,164)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Receipts of interest	29,639	28,191	2,623	32,390	2,083	94,926	102,218
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>29,639</u>	<u>28,191</u>	<u>2,623</u>	<u>32,390</u>	<u>2,083</u>	<u>94,926</u>	<u>102,218</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	101,041	209,835	11,065	204,741	75,006	601,688	(744,052)
CASH & CASH EQUIVALENTS, JANUARY 1	<u>4,071,453</u>	<u>1,965,739</u>	<u>174,993</u>	<u>2,263,727</u>	<u>69,130</u>	<u>8,545,042</u>	<u>9,289,094</u>
CASH & CASH EQUIVALENTS, DECEMBER 31	<u>4,172,494</u>	<u>2,175,574</u>	<u>186,058</u>	<u>2,468,468</u>	<u>144,136</u>	<u>9,146,730</u>	<u>8,545,042</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>							
Operating income	106,835	(66,887)	14,758	90,519	(118,595)	26,630	(188,169)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	-	459,232	25,373	520,704	169,770	1,175,079	1,132,164
(Increase)decrease in accounts receivable	(25,000)	-	-	-	-	(25,000)	-
Increase(decrease) in vouchers/accounts payable	(10,433)	19,693	(5,098)	234	20,830	25,226	(19,439)
Increase(decrease) compensated absences payable	-	8,482	-	2,062	-	10,544	7,338
Total Adjustments	<u>(35,433)</u>	<u>487,407</u>	<u>20,275</u>	<u>523,000</u>	<u>190,600</u>	<u>1,185,849</u>	<u>1,120,063</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 71,402</u>	<u>\$ 420,520</u>	<u>\$ 35,033</u>	<u>\$ 613,519</u>	<u>\$ 72,005</u>	<u>\$ 1,212,479</u>	<u>\$ 931,894</u>
<b>Noncash investing, capital, and financing activities:</b>							
Other Contributions of capital assets	-	\$ 21,970	\$ -	\$ 76,638	\$ 12,447	\$ 111,055	\$ 264,023



**Capital Assets Used in the Operation  
of Governmental Funds**

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
COMPARATIVE SCHEDULE BY SOURCE**  
December 31, 2004 and 2003

	2004	2003
<b>GOVERNMENTAL FUNDS CAPITAL ASSETS</b>		
Land	\$ 37,105,200	\$ 36,982,986
Buildings	1,895,076	1,895,076
Improvements other than buildings	16,549,392	16,549,392
Machinery and equipment	184,000	184,000
Infrastructure	711,522	711,522
Construction in progress	34,676,530	19,412,007
<b>TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS</b>	<b>91,121,720</b>	<b>75,734,983</b>
 <b>INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:</b>		
General Fund	6,909,448	6,909,448
Special Revenue Funds	2,528,770	2,528,770
Capital Project Funds	71,963,700	56,576,963
Donations	9,719,802	9,719,802
<b>TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS</b>	<b>\$ 91,121,720</b>	<b>\$ 75,734,983</b>

This schedule presents only the capital asset balances related to governmental funds before depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE BY FUNCTION AND ACTIVITY**

December 31, 2004

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Comparative Totals	
							2004	2003
<b>GENERAL GOVERNMENT</b>								
Miscellaneous general government	\$ 6,395,094		\$ 19,973	\$ 184,000		\$ 14,886,107	\$ 21,485,174	\$ 14,839,715
<b>TOTAL GENERAL GOVERNMENT</b>	<b>6,395,094</b>		<b>19,973</b>	<b>184,000</b>		<b>14,886,107</b>	<b>21,485,174</b>	<b>14,839,715</b>
<b>CULTURE AND RECREATION</b>								
	30,710,106	\$ 1,895,076	16,529,419			4,794,891	53,929,492	52,166,268
<b>TOTAL CULTURE &amp; RECREATION</b>	<b>30,710,106</b>	<b>1,895,076</b>	<b>16,529,419</b>			<b>4,794,891</b>	<b>53,929,492</b>	<b>52,166,268</b>
<b>TRANSPORTATION</b>								
Streets and traffic					\$ 711,522	14,995,532	15,707,054	8,729,000
<b>TOTAL TRANSPORTATION</b>					<b>711,522</b>	<b>14,995,532</b>	<b>15,707,054</b>	<b>8,729,000</b>
<b>TOTAL GENERAL FIXED ASSETS BY FUNCTION</b>								
	\$ 37,105,200	\$ 1,895,076	\$ 16,549,392	\$ 184,000	\$ 711,522	\$ 34,676,530	\$ 91,121,720	\$ 75,734,983

This schedule presents only the capital asset balances related to governmental funds before depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY**

For the Year Ended December 31, 2004

	Governmental Funds Capital Assets 1/1/2004	Additions	Deductions	Governmental Funds Capital Assets 12/31/2004
<b>GENERAL GOVERNMENT</b>				
Miscellaneous general government	\$ 14,839,715	\$ 6,645,459	\$ -	\$ 21,485,174
<b>TOTAL GENERAL GOVERNMENT</b>	<u>14,839,715</u>	<u>6,645,459</u>	<u>-</u>	<u>21,485,174</u>
<b>CULTURE AND RECREATION</b>				
	52,166,268	1,763,224	-	53,929,492
<b>TOTAL CULTURE AND RECREATION</b>	<u>52,166,268</u>	<u>1,763,224</u>	<u>-</u>	<u>53,929,492</u>
<b>TRANSPORTATION</b>				
Streets and traffic	8,729,000	6,978,054	-	15,707,054
<b>TOTAL TRANSPORTATION</b>	<u>8,729,000</u>	<u>6,978,054</u>	<u>-</u>	<u>15,707,054</u>
 <b>TOTAL GENERAL FIXED ASSETS</b>	 <u>\$ 75,734,983</u>	 <u>\$ 15,386,737</u>	 <u>\$ -</u>	 <u>\$ 91,121,720</u>

This schedule presents only the capital asset balances related to governmental funds before depreciation. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of the internal service funds are included as governmental activities in the statement of net assets.

**Statistical Section**

The Statistical Section provides information for the "Last Ten Fiscal Years". The Tables for "Special Assessment Collections" and "Schedule of Revenue Bond Coverage" are not included since the City currently has neither special assessments outstanding nor any revenue debt in the City's Enterprise Funds.



**GOVERNMENT-WIDE REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**For the Year ended December 31, 2004**

Program Revenues	
Charges for Services	\$ 13,662,985
Operating Grants and Contributions	568,060
Capital Grants and Contributions	7,692,806
General revenues	
Property tax	8,121,088
Sales tax	10,546,218
Other taxes	13,842,322
Other revenue	751,020
Unrestricted Grants & Contributions	176,928
Investment Earnings	954,366
Disposition of capital assets	(4,644)
Total Revenues	<u>\$ 56,311,149</u>
Expenses/Expenditures	
General Government	\$ 6,304,256
Security of Persons & Property	17,374,845
Transportation	4,098,790
Physical Environment	295,537
Economic Environment	2,953,073
Health	683,804
Culture & Recreation	4,914,348
Interest on long-term debt	1,764,077
Surface Water Management	3,282,428
Dumas Bay Centre	879,870
Total Expenses/Expenditures	<u>\$ 42,551,028</u>

**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS**

Fiscal Year	General Government	Public Safety	Physical Environment	Transportation	Economic Environment	Health *	Culture and Recreation	Capital Outlay	Debt Service	Total Expenditures
1994	\$2,842,741	\$ 8,864,249	\$ 196,621	\$ 4,266,560	\$ 2,309,212	\$1,339,925	\$2,737,432	\$ 11,967	\$ 1,639,837	\$ 24,208,544
1995	3,093,147	8,805,874	234,624	4,589,709	2,646,293	1,337,711	3,259,672	10,374	1,771,439	25,748,843
1996	3,831,238	10,269,193	304,196	5,309,948	2,298,040	488,604	2,944,815	1,677,848	1,717,048	28,840,930
1997	3,415,715	10,282,388	528,784	6,141,223	2,258,033	457,211	2,521,085	319,120	2,982,786	28,906,345
1998	3,823,872	11,851,585	310,482	6,407,351	2,395,851	529,790	2,606,626	141,262	4,414,037	32,480,856
1999	4,464,896	13,430,529	257,483	4,737,307	2,536,058	557,610	3,006,660	143,886	5,209,547	34,343,976
2000	4,237,852	14,046,638	318,709	4,661,867	2,634,011	546,191	3,034,818	508,919	4,228,711	34,217,716
2001	4,724,252	14,264,309	378,066	4,554,183	2,679,174	535,589	2,951,607	176,551	4,498,092	34,761,823
2002	5,049,813	14,991,404	329,064	5,203,702	2,779,401	627,232	3,141,129	212,592	4,485,281	36,819,618
2003	5,492,123	15,463,833	351,456	5,358,543	2,883,079	603,184	3,507,392	1,028,085	15,863,046	50,550,741
2004	6,107,563	16,982,135	289,921	4,035,769	2,944,583	679,655	3,927,933	111,183	5,532,121	40,610,863

\* Beginning 1996, a portion of MVET moneys were diverted from Cities to Counties to provide health service. Cities will no longer need to pay for health service.

NOTE: Prior to 1999, expenditures reported include Surface Water Management (SWM) as a Special Revenue Fund. 1999 figures were revised to exclude SWM as the fund was converted to an enterprise fund.



**GENERAL GOVERNMENTAL REVENUES BY SOURCE**  
**GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS**

Fiscal Year	Taxes	Licenses & Permits	Intergov't Revenue	Charges for Services	Fines and Forfeitures	Miscellaneous Revenue	Total Revenue
1994	\$ 15,895,472	\$ 889,724	\$ 6,203,784	\$ 4,061,229	\$ 553,579	\$ 834,792	\$ 28,438,580
1995	16,351,547	961,807	6,303,245	4,277,815	572,446	1,084,007	29,550,867
1996	18,080,794	917,219	5,667,480	4,195,678	520,670	929,396	30,311,237
1997	21,861,900	1,112,135	6,609,989	4,235,379	576,054	1,151,330	35,546,787
1998	24,024,928	1,192,610	6,311,889	4,797,634	791,113	1,511,601	38,629,775
1999	27,059,338	1,548,220	5,789,602	1,705,785	825,404	1,216,865	38,145,214
2000	28,495,459	1,434,027	5,251,899	2,219,948	902,762	1,920,328	40,224,423
2001	29,721,513	1,396,694	4,365,098	2,525,488	830,668	1,290,992	40,130,453
2002	30,694,856	1,829,620	4,165,673	2,864,937	785,997	989,710	41,330,793
2003	32,022,334	1,000,250	4,090,210	3,965,992	887,071	1,474,950	43,440,807
2004	32,553,302	1,235,039	3,651,365	4,200,528	810,793	1,495,455	43,946,482

NOTE: Prior to 1999, revenues reported include Surface Water Management (SWM) as a Special Revenue Fund. 1999 figures were revised to exclude SWM as the fund was converted to an enterprise fund.

**GENERAL GOVERNMENTAL TAX REVENUE BY SOURCE**

**GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS**

Fiscal Year	General Property Taxes	General Sales Tax	Utility Taxes	Business and Occupation Taxes	Miscellaneous Other Taxes and Assessments*	Total Taxes
1994	\$ 5,654,655	\$ 7,606,672	\$ -	\$ -	\$ 2,634,145	\$ 15,895,472
1995	5,911,017	7,916,114	-	-	2,524,416	16,351,547
1996	6,022,066	8,037,143	935,497	-	3,086,088	18,080,794
1997	6,163,988	8,320,209	3,859,545	-	3,518,158	21,861,900
1998	6,447,999	8,854,740	4,553,650	-	4,168,539	24,024,928
1999	6,588,903	9,717,585	5,235,168	-	5,517,682	27,059,338
2000	6,976,972	10,332,439	5,590,293	-	5,595,755	28,495,459
2001	7,215,272	10,368,153	6,098,264	-	6,039,824	29,721,513
2002	7,644,130	10,736,090	6,104,507	-	6,210,131	30,694,858
2003	8,200,955	10,518,230	7,147,878	-	6,155,271	32,022,334
2004	8,121,088	10,546,218	7,554,580	-	6,331,416	32,553,302

\* Includes real estate excise, local criminal justice, gambling excise, and other taxes and related assessments.

## PROPERTY TAX LEVIES AND COLLECTIONS

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Tax Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Total Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Total Tax Levy
1994	\$5,598,786	\$ 5,443,726	97.2%	\$ 274,559	\$ 5,718,285	102.1%	\$ 213,611	3.8%
1995	5,976,531	5,829,648	97.5%	131,665	5,961,313	99.7%	209,953	3.5%
1996	6,075,765	5,918,549	97.4%	129,237	6,047,786	99.5%	197,005	3.2%
1997	6,180,735	6,041,927	97.8%	125,222	6,167,149	99.8%	198,240	3.2%
1998	6,474,762	6,339,081	97.9%	138,180	6,477,262	100.0%	187,806	2.9%
1999	6,667,028	6,510,516	97.7%	135,953	6,646,469	99.7%	197,059	3.0%
2000	7,030,723	6,858,636	97.6%	131,554	6,990,190	99.4%	249,607	3.6%
2001	7,305,894	7,107,918	97.3%	145,498	7,253,416	99.3%	302,374	4.1%
2002	7,700,412	7,471,822	97.0%	163,181	7,635,003	99.2%	342,855	4.5%
2003	7,912,598	7,740,741	97.8%	243,165	7,983,906	100.9%	269,323	3.4%
2004	8,119,460	7,945,659	97.9%	184,756	7,983,906	98.3%	225,762	2.8%

Sources: Most of data has been derived from the "Annual Tax Receivable Summary" prepared by the King County Finance Department.

**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY\***

Fiscal Year	Real Property	Personal Property	State Public Service Property	Total	Percent Increase (Decrease)
1994	\$ 3,523,883,690	\$ 112,067,438	\$ 83,521,024	\$ 3,719,472,152	1.9%
1995	3,670,820,831	148,316,510	76,028,872	3,895,166,213	4.7%
1996	3,750,745,563	141,394,338	86,053,600	3,978,193,501	2.1%
1997	3,961,545,010	155,884,327	79,303,838	4,196,733,175	5.5%
1998	4,152,466,303	158,019,169	76,348,173	4,386,833,645	4.5%
1999	4,490,661,284	171,187,056	90,322,059	4,752,170,399	8.3%
2000	4,932,362,526	187,812,046	93,021,743	5,213,196,315	9.7%
2001	5,322,237,420	226,854,474	101,339,376	5,650,431,270	8.4%
2002	5,604,164,978	227,961,155	107,761,209	5,939,887,342	5.1%
2003	5,992,899,727	193,519,890	105,924,009	6,292,343,626	5.9%
2004	6,218,643,830	181,366,723	102,350,559	6,502,361,112	3.3%

\* Real, personal, and state public service property has been assessed at 100% of the estimated value.

NOTE: These figures includes all final tax adjustments, omits and senior citizen exempted property. This total assessed value was reduced by senior citizen exemptions (no tax amounts) of \$29,883,105 and prior year omits of \$920,289 yielding a regular levy value of \$6,471,557,718. These assessed valuations are the basis for the following year's tax levy.

Source: King County Assessor's Office.

PROPERTY TAX RATES AND LEVIES, DIRECT AND OVERLAPPING GOVERNMENTS

Fiscal Year	City of Federal Way	Federal Way School District #210	King County	Washington State	Green River Flood Zone	Port of Seattle	Fire District #39	Library	Emergency Medical Services	Total
<b>TAX RATES PER \$1,000 OF ASSESSED VALUATION</b>										
1994	1.54	5.06	2.21	3.40	0.05	0.30	1.58	0.58	0.25	14.97
1995	1.57	5.18	2.25	3.42	0.05	0.29	1.63	0.62	0.25	15.26
1996	1.56	5.26	2.21	3.50	0.05	0.29	1.67	0.62	0.25	15.41
1997	1.56	5.06	2.13	3.52	0.05	0.28	1.58	0.62	0.25	15.05
1998	1.55	4.65	1.85	3.51	0.05	0.26	1.50	0.60	-	13.97
1999	1.53	4.56	1.77	3.36	0.05	0.24	1.50	0.59	0.29	13.89
2000	1.49	4.42	1.69	3.30	0.05	0.22	1.50	0.59	0.27	13.53
2001	1.41	4.44	1.55	3.15	0.05	0.19	1.45	0.56	0.25	13.04
2002	1.38	4.16	1.45	2.99	0.05	0.19	1.50	0.53	0.25	12.50
2003	1.34	4.28	1.35	2.90	0.05	0.26	1.50	0.54	0.24	12.46
2004	1.30	4.20	1.43	2.76	0.05	0.25	1.50	0.53	0.24	12.26

DETAIL OF TAX RATES FOR 2004

Basic Rate	1.30	-	1.14	2.76	0.05	0.25	1.50	0.49	0.24	7.73
Voted Rate	-	4.20	0.29	-	-	-	-	0.04	-	4.53

TAX LEVIES

1994	\$ 5,598,786	\$ 26,891,328	\$ 259,088,827	\$ 399,086,354	\$ 502,979	\$ 35,646,867	\$ 8,257,614	\$ 35,252,354	\$ 29,312,268	\$ 799,637,377
1995	5,976,531	28,263,797	271,408,531	413,378,092	533,178	35,646,159	8,805,938	41,126,042	30,214,063	835,352,331
1996	6,075,765	28,940,230	268,662,181	427,109,738	565,205	35,647,165	9,118,681	41,040,476	30,492,034	847,651,475
1997	6,180,735	28,476,471	268,141,201	444,672,037	599,125	35,647,528	8,843,258	43,661,239	31,533,777	867,755,371
1998	6,474,762	27,530,445	248,678,961	472,459,927	635,052	35,646,835	8,378,714	46,603,642	26,137,500	872,545,838
1999	6,667,028	28,468,974	264,133,712	500,994,725	714,806	35,647,362	8,596,565	51,173,675	43,212,202	939,608,849
2000	7,030,723	29,878,996	278,515,900	545,390,795	748,642	35,647,430	8,596,565	54,618,346	45,070,501	1,005,497,898
2001	7,305,894	32,859,841	290,369,516	589,103,721	786,904	35,646,678	9,906,591	59,634,503	46,122,721	1,071,736,369
2002	7,764,913	33,552,460	304,062,327	627,772,703	799,554	39,806,235	11,061,131	64,373,926	52,497,313	1,141,690,562
2003	7,941,900	36,639,878	302,100,182	648,995,138	849,988	58,003,521	11,774,814	72,580,170	54,088,854	1,192,974,445
2004	8,117,874	38,051,680	335,853,716	647,490,235	873,826	59,657,092	12,467,237	74,860,405	55,704,127	1,233,076,192

Source: King County Assessor's Office and King County Department of Finance.

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT TO ASSESSED VALUE  
AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA**

Fiscal Year	(A) Population	(B) Assessed Value	(C) Gross Bonded Debt	Less Debt Service Fund	Net Bonded Debt	Ratio of Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1994	73,500	\$ 3,699,163,886	\$ 19,305,000	\$ 2,090,674	\$ 17,214,326	0.0047	\$ 234.21
1995	74,290	3,875,091,033	23,335,000	1,861,823	21,673,177	0.0056	291.74
1996	75,240	3,958,913,902	26,587,000	1,917,779	24,669,221	0.0062	327.87
1997	75,960	4,177,359,264	41,446,063	5,047,726	36,398,337	0.0087	479.18
1998	76,820	4,348,600,049	38,834,824	5,528,984	33,305,840	0.0077	433.56
1999	76,910	4,717,399,199	35,385,483	6,052,008	29,333,475	0.0062	381.40
2000	83,259	5,178,119,377	37,566,992	6,172,926	31,394,066	0.0061	377.07
2001	83,890	5,620,635,267	34,363,272	6,808,657	27,554,615	0.0049	328.46
2002	83,850	5,912,362,755	30,410,844	5,579,129	24,831,715	0.0042	296.14
2003	83,500	6,292,343,626	37,217,065	2,599,653	34,617,412	0.0055	414.58
2004	86,320	6,418,941,601	33,113,539	2,880,857	30,232,682	0.0047	350.24

(A) Sources: U.S. Census Bureau; State of Washington Office of Program Planning and Fiscal Management, Population Study Division; and the City's Community Development Department.

(B) The final certified Regular Levy assessed value of taxable property which was used by the King County Assessor's Office for use in calculating levy rates for the following year's tax roll. The total assessed valuation of \$6,471,557,718 has been reduced by senior citizen exemptions of \$29,883,105 and prior year omits of \$920,289 to arrive at taxable assessed valuation.

(C) Includes certificates of participation issued in 1999, Public Works Trust Fund Loans issued in 1994, 1996, 1997 and 2000; general obligation bonds issued in 1993, 1995, 1996, 1997, 2000 and 2003; and loan assumption in 2003.

## COMPUTATION OF LIMITATION OF INDEBTEDNESS

December 31, 2004

DESCRIPTION	GENERAL DEBT CAPACITY		EXCESS LEVY OPEN SPACE AND PARK	EXCESS LEVY UTILITY PURPOSES	TOTAL DEBT CAPACITY
	(Limited) COUNCILMANIC	(Unlimited) EXCESS LEVY			
Statutory debt limit: (2003 AV=\$6,292,343,626) (A)					
1.50% AV @ 100%	\$ 94,385,154	\$ (94,385,154)			
2.50% AV @ 100%		157,308,591	157,308,591	157,308,591	471,925,773
Add:					
Cash on hand for debt redemption (B)	3,921,806	-	-	-	3,921,806
Less:					
Bonds and COPs outstanding	(30,802,892)	-	-	-	(30,802,892)
REMAINING DEBT CAPACITY	\$ 67,504,068	\$ 62,923,437	\$ 157,308,591	\$ 157,308,591	\$ 445,044,687
TOTAL REMAINING "GENERAL" CAPACITY (C)	<u>\$130,427,505</u>				

(A) This figure represents the City's final total taxable assessed valuation (AV) for 2003 which was used to determine the 2004 property tax levy.

(B) Reflects ending fund balance in the Debt Service Fund and Utility Tax Fund as of December 31, 2004.

(C) Combined total for Councilmanic, Financing Lease, and Excess Levy capacities.

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

December 31, 2004

Jurisdiction	(A) Gross General Obligation Debt Outstanding	(B) Percentage Applicable to Federal Way	Amount Applicable to Federal Way
King County	\$ 731,930,523	2.64%	\$ 19,322,966
Port of Seattle	217,285,000	2.64%	5,736,324
Federal Way School District #210	117,135,000	68.35%	80,061,773
Library	30,985,000	6.22%	1,927,267
<b>Total Overlapping Debt</b>	<b>1,097,335,523</b>		<b>107,048,329</b>
<b>CITY OF FEDERAL WAY</b>	<b>37,217,065 (C)</b>	<b>100.00%</b>	<b>37,217,065</b>
<b>Total Direct and Overlapping Debt</b>	<b>\$ 1,134,552,588</b>		<b>\$ 144,265,394</b>

(A) Total general obligation bonds outstanding at the year end, exclusive of refunded bonds. Source is King County Department of Finance.

(B) Determined by ratio of assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in reporting unit.

(C) Includes certificates of participation issued in 1999, Public Works Trust Fund Loans issued in 1994, 1996, 1997 and 2000; general obligation bonds issued in 1993, 1995, 1996, 1997, 2000 and 2003; and loan assumption in 2003



## RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION

## BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES NET OF DEBT SERVICE EXPENSE

Fiscal Year	Principal	Interest *	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1994	\$ 590,000	\$ 1,046,468	\$ 1,636,468	\$ 24,208,544	6.8%
1995	765,000	1,001,427	1,766,427	25,748,843	6.9%
1996	432,280	1,278,552	1,710,832	28,840,930	5.9%
1997	1,222,090	1,755,354	2,977,444	28,906,345	10.3%
1998	2,376,239	2,037,798	4,414,037	32,480,856	13.6%
1999	3,302,102	1,907,445	5,209,547	34,343,976	15.2%
2000	2,498,853	1,729,858	4,228,711	34,217,716	12.4%
2001	2,700,478	1,797,614	4,498,092	34,761,823	12.9%
2002	2,834,084	1,651,197	4,485,281	36,819,618	12.2%
2003	14,159,881	1,703,165	15,863,046	50,550,741	31.4%
2004	3,080,677	1,796,791	4,877,468	40,610,863	12.0%

\* Excludes bond issuance and debt registration costs.

DEMOGRAPHIC STATISTICS

Fiscal Year	Population	Per Capita Income [C]	Median Age [C]	Education Level in Years of Formal Schooling	School Enrollment (A)	Unemployment Rate (B)
1994	74,413	16,206	30.6	13.0	20,043	5.2%
1995	74,290	17,126	30.6	13.0	20,331	4.9%
1996	75,521	17,401	30.6	13.0	20,733	4.6%
1997	75,960	25,569	32.5	13.0	21,478	3.1%
1998	76,820	22,874	33.3	13.0	21,865	2.9%
1999	76,910	28,494	33.4	13.0	22,407	3.0%
2000	83,259	29,210	32.5	13.0	22,289	3.1%
2001	83,890	22,451	32.5	13.0	21,916	5.2%
2002	83,850	22,451	32.5	13.0	22,194	6.6%
2003	83,500	22,451	32.5	13.0	22,265	6.7%
2004	85,800	22,451	32.5	13.0	22,395	6.5%

(A) Includes public school enrollment. Kindergarten is included though not State mandated.

(B) The unemployment rates for 1994 through 1998 reflect the annual average for the City of Federal Way, which is based on census share methodology. The rates for the years 2002 and 2003 are the annual average for Seattle-Bellevue-Everett PMSA. The 2004 rate came from the State of Washington Employment Security Department.

(C) Per capita income and Median age information for the years 2001, 2002 and 2003 are based on 2000 U.S. Census report since this information is available for individual cities only every ten years when the census is done.

Sources: Data was obtained from U. S. Census Bureau  
 School data was provided by the Federal Way School District.

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS

Year	Commercial Construction (A)		Residential Construction (A)		Multi-Family Construction (A)		Bank Deposits (B)	Property Assessed Valuation (C)		
	Permits	Value (In Thousands)	Permits	Value (In Thousands)	Permits	Value (In Thousands)	King County (In Millions)	Total Taxable (In Thousands)	Exemptions (In Thousands)	Non-Taxable (In Thousands)
1994	187	\$ 33,530	359	\$ 34,846	2	\$ 523	\$ 18,763	\$ 3,719,472	\$ 51,116	\$ 17,983
1995	211	33,071	322	27,165	3	215	19,034	3,895,166	53,384	18,126
1996	149	18,177	257	21,276	3	11,793	16,344	3,958,914	56,383	17,116
1997	169	9,704	367	27,952	10	12,749	17,125	4,177,359	57,686	16,362
1998	188	50,863	364	23,301	11	7,594	19,650	4,348,600	44,629	32,685
1999	180	43,359	374	26,229	5	16,167	18,337	4,717,399	48,282	31,824
2000	250	38,554	185	11,462	12	3,816	18,678	5,178,119	46,551	29,984
2001	291	59,384	166	7,914	6	1,790	20,334	5,620,635	44,646	27,409
2002	393	59,075	318	38,176	1	-	22,262	5,912,363	46,489	26,561
2003	240	25,695	290	37,775	1	1,042	26,750	6,262,874	50,672	28,809
2004	335	64,522	289	82,658	0	-	28,839	6,471,942	52,616	29,883

(A) Source: Federal Way Community Development Department. Commercial construction includes alterations. Other building-related permits (plumbing, mechanical, fire alarm, etc.) numbering 1,958 and valued at \$2,504,128 have been excluded.

(B) Source: Federal Reserve Bank of San Francisco. The deposits disclosed are for June 30 of the prior year. The FDIC does not publish its annual update until late June.

**PRINCIPAL TAXPAYERS**

December 31, 2004

Taxpayer	Type of Business	2004 Assessed Valuation	Percentage of Total Assessed Valuation (A)
Weyerhaeuser Real Estate Co.	Real Estate	\$ 145,049,370	2.31%
Puget Sound Energy	Electric/Gas	53,539,212	0.85%
Steadfast SeaTac Mall (formerly Newman Properties)	Shopping Center	39,423,163	0.63%
Qwest Corporation Inc.	Communications/Telephone	38,781,784	0.62%
Harsch Investment Properties (Ross Plaza)	Shopping Center	22,228,300	0.35%
Quadrant Corporation	Real Estate Management	21,819,600	0.35%
Fred Meyer	Retailer / Wholesaler	20,563,138	0.33%
Red Mortgage Capital Inc	Finance	18,741,000	0.30%
BRE Properties	Real Estate Management	17,454,000	0.28%
Virginia Mason Clinic	Medical Services	16,674,141	0.26%
Wells Fargo		15,818,949	0.25%
Costco	Retailer / Wholesaler	15,503,875	0.25%
Campus Business Parks LLC	Real Estate Investment/Holding	15,176,700	0.24%
Apple Hospitality Five Inc		9,264,800	0.15%
		<u>\$ 450,038,032</u>	<u>7.15%</u>

**PRINCIPAL EMPLOYERS**

December 31, 2004

Taxpayer	Type of Business	Number of Employees
FEDERAL WAY SCHOOL DIST #210	Education	3,150
WEYERHAEUSER COMPANY	Lumber Products	3,029
ST FRANCIS HOSPITAL	Medical Services	744
ENCHANTED PARKS INC	Amusement Center	687
US POSTAL SERVICE	Postal Service	626
WORLD VISION INC	Christian Relief Agency	596
CITY OF FEDERAL WAY	Government Services	440
LAKEHAVEN UTILITY DISTRICT	Utility	420
COSTCO WHOLESALE CORPORATION	Wholesale	303
VIRGINIA MASON FEDERAL WAY	Medical Services	235
WAL-MART STORE #2571	Retail	225
BON-MACY'S	Retail	220
ALBERTSONS FOOD CENTER	Retail Grocery	220
FRED MEYER	Retail	214
SEARS, ROEBUCK & CO.	Retail	205
HOME DEPOT #4703, THE	Retail	202
SPHERION	Miscellaneous Services	200
PRUDENTIAL NW REALTY ASSOCIATES LLC	Real Estate	200
WINCO FOODS #43	Retail Grocery	178
DEVRY UNIVERSITY	Education	167
UNICCO SERVICE COMPANY	Miscellaneous Services	161
LIFE CARE CENTER OF FEDERAL WAY	Nursing Facility	160
HALLMARK MANOR	Retail	160
CAPITAL ONE SERVICES INC	Financial Institution	150
AAA RESIDENTIAL SERVICES INC	Assisted living facility	150
LOWE'S HIW INC	Retail	140
GARDEN TERRACE ALZHEIMER'S CENTER	Assisted living facility	135
AVALON CARE CENTER - FEDERAL WAY LLC	Miscellaneous Services	135
PJ POCKETS CASINO	Casino	133
FEDERAL WAY FIRE DEPARTMENT	Social Service	133
SAFEWAY STORES	Retail Grocery	131
TARGET STORE #340	Retail	130
BROOKLAKE COMMUNITY CHURCH	Social Service	122
GROUP HEALTH -FW MEDICAL CENTER	Medical Services	120
BERGER/ABAM ENGINEERS	Miscellaneous Services	116
FOUNDATION HOUSE AT FEDERAL WAY	Assisted living facility	105
METROPOLITAN MARKET #155	Retail Grocery	99

(A) 2003 assessed valuations for taxes collected in 2004. Total 2004 assessed valuation for the City is \$6,292,343,626

Source: King County Assessor - Principal Taxpayers.

City of Federal Way Business Licenses - Principal Employers - includes both full-time and part-time employees.

## SCHEDULE OF INSURANCE IN FORCE

December 31, 2004

NAME OF COMPANY	POLICY NUMBER	POLICY PERIOD	DETAILS OF COVERAGE	LIABILITY LIMITS	ANNUAL PREMIUM
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Pubic Entity Management Liability Protection	\$10,000,000 Each Claim & Aggregate Annually. Deductible \$5,000	Included In General Liability Premium
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Public Official Bond - Management Service Director	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000	Included In Fidelity / Crime Coverage
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Public Official Bond - City Manager	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000	Included In Fidelity / Crime Coverage
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	General Liability, Auto Liability, Underinsured Motorists Liability and Law Enforcement Liability Coverage	\$10,000,000 Occurrence, \$20,000,000 Aggregate, \$1,000,000 Underinsured Motorists Coverage, \$1,000,000 Garagekeepers Legal Liability. All Limits are Per Occurrence/Aggregate Annually. Deductible \$5,000	\$ 203,400
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Property Coverage	Statement of Values Limit \$24,514,943, Business Income / Extra Expense \$1,000,000, Valuable Papers / Accounts Receivable \$1,000,000, Rental Income \$1,000,000, Electronic Data Processing \$1,000,000, Fine Arts \$1,000,000.	\$ 35,521
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Auto Liability and Physical Damage Coverage	Included in General Liability, Auto Liability and Law Enforcement Liability Above. Auto Physical Damage - Deductible \$1,000 Trucks / Fire Trucks / Ambulances, \$500 Pickups / Vans, \$250 Private Passenger	\$ 63,913
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Faithful Performance / Fidelity/Employee Dishonesty and ERISA Coverage	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000	\$ 2,540
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Inland Marine	Limit of \$108,000. Deductible \$5,000	\$ 389
St. Paul Mercury Ins. Co.	GP06301432	09/01/2004 - 08/31/2005	Excess Liability Coverage	Included In General Liability Premium	Included In General Liability Premium
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Boiler & Machinery Coverage	\$10,000,000 Per Accident, \$50,000 Perishable Goods, \$1,000,000 Hazardous Substances, \$100,000 CFC Refrigerants, Deductible \$2,500 Each Accident, Extended Business Income 30 Days, Newly Acquired Locations 365 Days, Service Interrup	\$ 12,671
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Employer/Stop Gap Liability Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above	Included In General Liability Premium
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Public Officials Bond - City Clerk	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000	Included In Fidelity / Crime Coverage
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Public Officials Bond - Chief of Police	Included in Crime/Fidelity Coverage, \$500,000 Employee Dishonesty, \$100,000 Forgery/Alteration. Deductible \$5,000	Included In Fidelity / Crime Coverage
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Law Enforcement Liability Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above	Included In General Liability Premium
St. Paul Fire and Marine Insurance Company	GP06301432	09/01/2004 - 08/31/2005	Above Ground Pollution Coverage	Included in General, Auto and Law Enforcement Liability Limits Referenced Above	Included In General Liability Premium
<b>TOTAL PREMIUMS</b>					<b>\$ 318,434</b>

**SALARIES AND SURETY BONDS OF PRINCIPAL OFFICIALS**

**DECEMBER 31, 2004**

**LEGISLATIVE BODY**

<u>POSITION</u>	<u>EMPLOYEE</u>	<u>ANNUAL SALARY</u>
MAYOR	DEAN MCCOLGAN	\$16,500
COUNCILMEMBERS	JEANNE BURBIDGE	\$12,900
	JACK DOVEY	\$12,900
	ERIC FAISON	\$12,900
	JIM FERRELL	\$12,900
	LINDA KOCHMAR	\$12,900
	MICHAEL PARK	\$12,900

**ADMINISTRATIVE STAFF**

<u>POSITION</u>	<u>EMPLOYEE</u>	<u>ANNUAL SALARY</u>
CITY MANAGER	DAVID MOSELEY	Negotiated
DIRECTOR - CITY ATTORNEY	PAT RICHARDSON	\$88,260 - \$111,648
CITY CLERK	CHRISTINE GREEN	\$60,948 - \$77,100
COMMUNITY DEVELOPMENT DIRECTOR	KATHY MCCLUNG	\$88,260 - \$111,648
MANAGEMENT SERVICES DIRECTOR	IWEN WANG	\$88,260 - \$111,648
PARKS, RECREATION AND CULTURAL SERVICES DIRECTOR	DONNA HANSON	\$88,260 - \$111,648
PUBLIC SAFETY DIRECTOR	ANNE KIRKPATRICK	\$88,260 - \$111,648
PUBLIC WORKS DIRECTOR	CARY ROE	\$88,260 - \$111,648

NOTE: In accordance with State of Washington legal statutes, individual fidelity coverage of not less than \$100,000 exists for both the City Manager and Management Services Director.

MISCELLANEOUS STATISTICAL INFORMATION

DECEMBER 31, 2004

**TYPE OF GOVERNMENT**

Council - City Manager

**ORGANIZATION STRUCTURE**

Legislative	Executive	Administrative
Mayor	1 City Manager	6 Department Directors
6 Councilmembers	1 Assistant City Managers	

**CORPORATE INFORMATION**

The City of Federal Way is a noncharter optional code City. It was incorporated as an optional code City on February 28, 1990, and is governed under the provisions of the Optional Municipal Code of the Revised Code of Washington. Optional Code City status increases the City's operating authority by extending it to the powers of all four city classifications which exist in Washington law.

**LOCATION AND AREA**

Federal Way, the seventh largest city in the State of Washington, encompasses an area of 22.5 square miles including annexation. It is located in South King county approximately 25 miles south of Downtown Seattle and 8 miles north of Downtown Tacoma. The community is residential commercial, with the populace employed locally in neighboring cities such as SeaTac, Kent, Tacoma, Bellevue and Seattle. The City has approximately 34,559 housing units. It is 6 miles from the Port of Tacoma and 9 miles south of SeaTac International Airport. The City is served by Interstate 5 and state highways 99 and 509. Frequent Metro public bus service is available to both Seattle and Tacoma throughout Federal Way. Three express park-and-ride lots are provided.

**POPULATION, REGISTERED VOTERS AND EMPLOYMENT WITHIN CITY LIMITS**

The population of Federal Way is presently 85,800, of which 41,724 are registered voters. A total of 29,612 (est.) people are employed within the City limits.

**NUMBER OF CITY EMPLOYEES**

During the year 2004, the City employed 286 full-time salaried, 21 part-time hourly, and 149 temporary employees. There were 118 commissioned police officers and 12 union lieutenants, and no uniformed firefighters. The Teamsters Union #763 represented 20 employees of Public Works Maintenance and Parks Maintenance and 9 employees of the Municipal Court, 33 employees were represented by the PSSA (Police Support Services Association), and the Police Guild represented 97 Police Officers during 2004.

**RECREATIONAL FACILITIES**

- 32 Developed park sites covering 500.25 acres
- 21 Undeveloped park sites covering 356.24 acres (including open space)
- 25 Public tennis courts, 9 of which are owned by the City
- 2 Public swimming pools, one owned by the City and one owned by King County
- 2 Trails covering 4 miles

**OTHER CITY OWNED FACILITIES**

- 1 New City Hall
- 1 Parks Maintenance Facility
- 1 Dumas Bay Centre
- 1 Klahanee Community/Senior Center

**PUBLIC EDUCATION**

	ENROLLMENT COUNT									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
23 Elementary Schools	11,524	11,689	11,930	12,248	12,258	12,242	11,498	11,990	9,854	9,916
7 Middle Schools (incl. Public Academy)	4,701	4,838	4,979	4,956	4,994	5,013	5,331	5,509	5,458	5,476
5 High Schools	3,730	3,904	4,103	4,116	4,529	4,557	4,415	4,316	6,625	6,650
1 Internet Academy (K-12)	376	302	466	545	626	477	672	379	328	353
	20,331	20,733	21,478	21,865	22,407	22,289	21,916	22,194	22,265	22,395

3,766 Staff members (including substitutes).

MISCELLANEOUS STATISTICAL INFORMATION

DECEMBER 31, 2004  
(Continued)

MILES OF STREET

Streets (Center Line Miles).....248.12 miles

SIGNALS/STREET LIGHTS

Signals WSDOT-owned and maintained..... 4  
 Signals City-owned and King County-maintained... 71  
 Street lights City-owned and maintained..... 1050  
 Street lights City-owned and PSE-maintained... 644  
 Street lights PSE-owned and maintained..... 1975

LOCAL TAXES ON BUSINESSES

Franchise Tax - Cable TV..... 5.00%  
 Gambling Taxes:  
     Bingo/Raffles..... 5.00%  
     Amusement/Games..... 2.00%  
     Punchboard/Pull Tabs..... 5.00%  
     Cardrooms..... 20.00%  
 Local Sales Tax (Collected by the State)..... 8.80%

POLICE INFORMATION

Offenses:	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Forcible Rape (including attempts)	71	73	37	58	53	43	49	34	50	50
Robbery	173	188	154	153	115	128	124	108	125	121
Criminal Homicide	3	3	2	2	4	7	4	4	2	0
Aggravated Assault	167	171	121	159	167	158	141	120	120	109
Vehicle Theft	843	807	746	761	808	849	1179	1206	1204	1118
Burglary (commercial & residential)	881	965	643	648	573	533	521	677	672	759
Larceny	4300	4086	3901	3393	3097	3072	3516	3347	3145	3257
Arson	38	35	24	39	38	36	17	29	14	23
Citations:										
Traffic	14,258	8,660	11,196	13,382	10,890	13,340	12,767	13,439	18,411	13219

FIRE AND EMERGENCY MEDICAL RESPONSE INFORMATION

Fire and Emergency Medical Response information reflects the greater Federal Way area, which is served by Fire District #39.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Fire and Other Responses	1,902	2,018	1,985	2,357	2,009	2,278	1,920	3,055	3,117	2896
Emergency Medical	5,653	6,007	5,853	6,589	6,870	7,193	7,240	7,422	8,042	8263

BUILDING RELATED PERMITS & VALUES

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Building Permits	560	422	576	582	573	447	463	712	531	624
Estimated Value (In Millions \$)	\$60.7	\$51.3	\$53.3	\$81.9	\$85.8	\$53.8	\$69.1	\$94.8	\$64.5	105.4
Other Building Related Permits	625	656	864	821	1007	1546	1693	2024	1779	1958
Estimated Value (In Millions \$)	\$2.8	\$37.6	\$18.5	\$27.0	\$11.0	\$1.5	\$2.3	\$2.5	\$2.4	\$ 2.5

TAXABLE SALES (in millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Retail Sales	\$942.4	\$956.8	\$978.9	\$1,049.3	\$1,137.0	\$1,212.1	\$1,220	\$1,298	\$1,237	\$1,239
Real Estate Sales	\$219.0	\$305.0	\$375.4	\$438.8	\$487.6	\$429.9	\$400	\$503	\$570	\$611