

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Financial Statements

For the Years Ended December 31, 2012 and 2011

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Independent Auditors' Report

Cities' Municipal Employees' Benefit Trust Committee Municipal Employees' Benefit Trust Bellevue, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Employees' Benefit Trust (the Trust), which comprise the statements of net assets as of December 31, 2012 and 2011, and the related statement of changes in net assets and trust balance for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CLARK NUBER

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Trust as of December 31, 2012 and 2011, and the changes in its net assets and trust balance for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public

Accountants

and Consultants

Other Matter

The accompanying statements are those of the Trust, which is established under the employee retirement benefit plans (the Plans) of certain entities in the State of Washington as described in Note 1. These financial statements do not purport to present the net assets available for benefits of the Plans and do not contain disclosures necessary for a fair presentation of the net assets available for benefits of the Plans in accordance with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants

July 25, 2013

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Statements of Net Assets
December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Assets:		
Investments, at fair value-		
Mutual funds	\$ 255,584,653	\$ 224,465,760
Collective trust funds	115,668,315	105,445,620
Common and preferred stocks	177,014,013	150,445,546
Money market fund	22,973,025	21,214,214
Interest-bearing cash	<u>3,107,312</u>	<u>3,962,750</u>
Total investments, at fair value	574,347,318	505,533,890
Receivables-		
Accrued investment income	490,889	1,200,491
Notes receivable from participants	<u>8,153,246</u>	<u>6,560,908</u>
Total receivables	<u>8,644,135</u>	<u>7,761,399</u>
Net Assets Available for Benefits, at Fair Value	582,991,453	513,295,289
Accrued administrative fees	<u>(580,357)</u>	<u>(455,498)</u>
Net Assets Available for Benefits	<u>\$ 582,411,096</u>	<u>\$ 512,839,791</u>

See accompanying notes.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Statements of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Contributions and Investment Income (Loss):		
Contributions-		
Employer	\$ 15,955,955	\$ 15,531,293
Employee	18,187,486	17,713,827
Rollovers	<u>32,013</u>	<u>71,665</u>
Total contributions	34,175,454	33,316,785
Investment income (loss)-		
Interest and dividends	18,830,605	13,875,021
Net appreciation (depreciation) in fair value of investments	<u>54,593,827</u>	<u>(17,987,382)</u>
Net investment income (loss)	<u>73,424,432</u>	<u>(4,112,361)</u>
Total Contributions and Investment Income (Loss)	107,599,886	29,204,424
Deductions from Net Assets:		
Benefits paid to participants	33,964,639	24,408,539
Insurance premiums	1,810,019	1,794,467
Administrative expenses	<u>2,253,923</u>	<u>2,190,148</u>
Total Deductions from net Assets	38,028,581	28,393,154
Net Increase in Net Assets Available for Benefits	69,571,305	811,270
Net Assets Available for Benefits:		
Beginning of year	<u>512,839,791</u>	<u>512,028,521</u>
End of Year	<u>\$ 582,411,096</u>	<u>\$ 512,839,791</u>

See accompanying notes.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 1 - Overview / Description of the Trust

The following description of the Municipal Employees' Benefit Trust (the Trust) is provided for general information purposes only. More complete information regarding the Trust's provisions may be found in the Trust document and individual entity plan documents.

General - The Trust was created to manage the assets of the employee retirement benefit plans (the Plans) of certain entities in the State of Washington, which currently includes the cities of Bellevue, Edmonds, Federal Way, Kirkland, Mill Creek, Redmond, Woodinville, and the North East King County Regional Public Safety Communication Agency (NORCOM) (collectively, the Cities). Each entity has its individual plan document, which governs its participation, contributions, and disbursements. Each of the cities withdrew from, or elected not to participate in, coverage under the Federal Old Age, Survivors, Disability and Health Insurance Act (Social Security). In lieu of such coverage, the Cities created the Plans, whereby both the employee and employer make contributions to the Plans to provide retirement, survivor, and disability benefits otherwise provided by Social Security. The Trust is comprised of two levels of Social Security replacement. Regular employees participate in MEBT I with benefits invested primarily in the Pooled Balanced Fund. Those participants nearing retirement may choose to invest in the Money Market Fund. Partially benefiting employees who are not eligible for PERS or LEOFF participate in MEBT II with benefits invested in the Money Market Fund. The Trust and Plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

Eligibility - In each entity, all regular (40 hours per week) and part-time (20 hours per week) employees are immediately eligible upon the date of employment. With the exception of Edmonds, Federal Way, Woodinville, and NORCOM, all temporary (hourly) employees are also eligible when hired. Bellevue, Kirkland, and Redmond PERS hourly/partially benefited employees are not eligible.

Contributions - The Plans generally provide that the employers make contributions equal to those that would be required had the Cities not withdrawn from or elected not to participate in Social Security. Employer contributions to the Plans, which are made according to each entity's Plan, are used to pay administrative expenses, operating costs, and other employee benefits, including disability coverage for employees and survivor benefits to beneficiaries.

The Plans also require that the employees contribute 100% of the amount that would be required for Social Security, except for Bellevue, Redmond, and Kirkland MEBT I employees, whose contributions to the Plans are optional. Depending on the individual entity's Plan, employees may make their contributions on a before or after tax basis. Additionally, depending on the individual entity's Plan, these employees may elect to make additional voluntary contributions to the Plans on a before or after tax basis, subject to certain conditions and restrictions, as defined in the Plans' documents and subject to certain requirements set forth by the Internal Revenue Code (IRC).

Participant Accounts - Each participant's account is credited with the participant's contribution and an allocation of (a) the respective entity's contribution, net of expenses and insurance premiums, (b) forfeitures of terminated participants' nonvested accounts, and (c) Trust earnings, participant fees or other listed items. Trust earnings are reflected in each participant's account based on the daily change in the Trust's unit value. The benefit to which a participant is entitled is limited to the participant's vested account balance.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 1 - Continued

The Plans' Administration and Trustee - The Trust is administered by the Cities' Municipal Employees' Benefit Trust Committee (the Committee), which is appointed by the Bellevue City Manager. The Plans' investments are held under a trust agreement with Wilmington Trust (WT). An Investment Advisory Committee (IAC), which consists of a member from each of the Cities, provides advice to the Committee on the Trust's investment activities. All members are voting members of the IAC if their entity has five or more years of membership in the Trust. A minimum of five IAC members need to be present to vote on a recommendation to be adopted by the Trust.

Vesting - Employee contributions to the Trust are fully vested at all times. Employer contributions are vested as follows for each entity:

Bellevue - Employer contributions vest at 10% at the end of twelve months of participation and then at 0.83% for each additional month of participation. Employees become fully vested after ten years of participation.

Edmonds, Kirkland, and Mill Creek - Employer contributions vest at 10% at the end of twelve months of participation and then at 1.25% for each additional month of participation. Employees become fully vested after seven years of participation.

Federal Way - Employer contributions vest at 20% per year and become fully vested after five years of service.

Redmond, Woodinville and NORCOM - Employer contributions vest at 20% after twelve months and at 1.66% for each additional month. Employees become fully vested after five years of service.

Forfeitures - Forfeitures become part of an unallocated account within each Plan, which is allocated to the Plans' respective participants on a periodic basis based on a prescribed formula related to employer contributions. Total forfeitures allocated in 2012 and 2011 were approximately \$317,000 and \$431,000, respectively.

Temporary/Hourly/Partially Benefited Employees - The Plans (except for the Plans of Edmonds, Federal Way, Woodinville, and NORCOM) allow participation by temporary/hourly/partially benefited employees of the Cities. The part of the Plan for the temporary/hourly/partially benefited employees is commonly referred to as MEBT II. Edmonds, Federal Way, Woodinville, and NORCOM temporary/hourly employees are covered by Social Security. These participants do not share in the distribution of the Plans' earnings or in the risk of any of the Plans' investment losses.

Benefit Payments - The Plans provide that participants may make withdrawals of basic and extra after tax contributions, subject to certain conditions and limitations outlined in the Plan's documents. In addition, the Plans (except for Woodinville) provide that in the event of hardship (as defined in the Plans' documents), participants may make withdrawals from their before or after tax contributions, subject to certain limitations and restrictions. Upon termination of service, death, disability, or retirement, participants or their beneficiaries may elect to receive their vested account balances in a lump-sum distribution, in monthly, quarterly, or annual installments, or in annuity payments as determined by provisions of the Plans.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 1 - Continued

Notes Receivable from Participants - Federal Way allows participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged on loans is equal to the prime rate. For 2012 and 2011, the interest rate on outstanding participant loans ranged from 3.25% to 8.25%.

Redmond allows participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged is equal to the prime rate plus 1.0%. For 2012 and 2011, the interest rate on outstanding participant loans ranged from 4.25% to 9.25%.

Effective January 1, 2011, Bellevue allows participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged is equal to the prime rate plus 1.0%. For 2012 and 2011, the interest rate on outstanding participant loans was 4.25%.

Insurance Premiums - Most of the Cities have purchased survivor and disability insurance coverage for plan participants. The insurance carrier, The Standard Insurance Company, provides surviving beneficiaries with coverage in the event of death, and disabled participants with coverage in the event of a disabling condition, as described in such policy. The premiums for these policies, with the exception of life insurance premiums at Edmonds and Woodinville, are deducted from the Cities overall contributions to the Plans, with the remainder deposited into the Trust. The cities of Edmonds, Woodinville, and NORCOM replaced survivor insurance with term life insurance, which is wholly or partially paid by the employees on an after-tax basis.

Plan Termination - Although the Cities have no intent to do so, they have the right to reduce, suspend, or completely discontinue contributions to the Plans. Upon such action by any participating entity, participant accounts related to that entity would become fully vested.

Investment Policy - The Committee has established an Investment Policy Statement that the Trustee, Wilmington Trust, must follow. The approved target asset allocation of the Trust at December 31, 2012 and 2011, is as follows:

Equities - Domestic	45.0%
Equities - International	15.0%
Fixed Income	40.0%
Cash and Cash Equivalents (kept to a workable minimum for cash flow)	

For any month-end allocation varying more than 20% from the target percentages, the Chair of the Committee may instruct the trustee to sell assets from the asset class in question, sufficient to bring that asset class back to within a 10% deviation from its target, and allocate to the other asset classes to bring those asset classes back towards their targets. A rebalance is not required if the allocation returns within the target percentages prior to rebalancing.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 2 - Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Payment of Benefits - Benefit payments are recorded when paid. Amounts allocated to accounts of participants who had elected to withdraw from the Trust as of year-end but had not yet been paid totaled \$196,631 and \$169,677 as of December 31, 2012 and 2011, respectively.

Investment Valuation and Income Recognition - The Trust's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation in the fair value of investments represents the change in fair value from the beginning to the end of the Trust's fiscal year or from the date of purchase to the end of the Trust's fiscal year, if purchased during the current year, plus realized gains and losses.

Notes Receivable from Participants - Notes receivable from participants are measured at their unpaid principal balance. Accrued but unpaid interest, if any, would not have a material impact on the Plan's financial statements. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Risks and Uncertainties - Investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets and the statements of changes in net assets.

Subsequent Events - The Cities have evaluated subsequent events through July 25, 2013, the date on which the financial statements were available to be issued.

Note 3 - Fair Value Measurements

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 3 - Continued

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Collective Trust Funds - Valued at the NAV of units of a bank collective trust. The NAV, as provided by the fund's trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily.

Common and Preferred Stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

Interest-Bearing Cash - The carrying amount of cash approximates fair value.

The valuation methodologies used by the Trust may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 3 - Continued

The following tables set forth by level, within the fair value hierarchy, the Trust's assets at fair value as of December 31:

	<i>Fair Value Measurements as of December 31, 2012</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds-				
Fixed income	\$ 215,287,646	\$ -	\$ -	\$ 215,287,646
International	40,297,007			40,297,007
Total mutual funds	255,584,653			255,584,653
Collective trust funds-				
Large cap equity		115,668,315		115,668,315
Common and preferred stocks-				
Large cap growth	56,622,627			56,622,627
Large cap value	52,754,260			52,754,260
Small cap growth	12,079,106			12,079,106
Small cap value	10,394,181			10,394,181
Real estate	3,703,671			3,703,671
International growth	41,272,968			41,272,968
International value	187,200			187,200
Total common and preferred stocks	177,014,013			177,014,013
Money market fund	22,973,025			22,973,025
Interest-bearing cash	3,107,312			3,107,312
	\$ 458,679,003	\$ 115,668,315	\$ -	\$ 574,347,318

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 3 - Continued

	<i>Fair Value Measurements as of December 31, 2011</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds-				
Fixed income	\$ 192,121,511	\$ -	\$ -	\$ 192,121,511
International	32,344,249			32,344,249
Total mutual funds	224,465,760			224,465,760
Collective trust funds-				
Large cap equity		105,445,620		105,445,620
Common and preferred stocks-				
Large cap growth	47,523,755			47,523,755
Large cap value	45,082,812			45,082,812
Small cap growth	11,672,925			11,672,925
Small cap value	9,459,271			9,459,271
Real estate	3,378,501			3,378,501
International growth	33,124,442			33,124,442
International value	203,840			203,840
Total common and preferred stocks	150,445,546			150,445,546
Money market fund	21,214,214			21,214,214
Interest-bearing cash	3,962,750			3,962,750
	\$ 400,088,270	\$ 105,445,620	\$ -	\$ 505,533,890

The following sets forth additional disclosures of the Trust's investments, whose fair value is estimated using NAV per share (or its equivalent), as of December 31:

	<i>2012 Fair Value</i>	<i>2011 Fair Value</i>	<i>Redemption Frequency</i>	<i>Redemption Notice Period</i>
Collective trust fund-				
State Street S&P 500 Flagship Fund (a)	\$ 115,668,315	\$ 105,445,620	Daily	None

(a) The investment objective of the Fund is to approximate as closely as practicable, before expenses, the performance of the S&P 500 Index over the long term. There were no unfunded commitments at December 31, 2012 and 2011.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 4 - Investments

The fair market values of individual investments representing 5% or more of the Trust's total net assets as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
PIMCO Total Return Institutional	\$ 148,535,137	\$ 133,195,089
State Street S&P 500 Flagship Fund	115,668,315	105,445,620
Calamos High Yield A Fund	66,752,509	58,926,422
Allianz NFJ International	40,297,007	32,344,249

During 2012 and 2011, the Trust's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

	<u>2012</u>	<u>2011</u>
Mutual funds	\$ 13,235,435	\$ (7,087,377)
Collective trust funds	16,939,684	2,287,442
Common and preferred stocks	24,418,708	(13,187,447)
	<u>\$ 54,593,827</u>	<u>\$ (17,987,382)</u>

Note 5 - Relative Share of the Trust Assets

The relative share of the Trust's assets for each entity is as follows at December 31:

	<u>2012</u>	<u>2011</u>
Bellevue	50.5%	50.5%
Redmond	19.1%	19.6%
Kirkland	13.7%	13.2%
Edmonds	7.5%	7.9%
Federal Way	6.5%	6.1%
Mill Creek	1.0%	1.0%
NORCOM	1.0%	0.9%
Woodinville	0.7%	0.8%
	<u>100.0%</u>	<u>100.0%</u>

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements

For the Years Ended December 31, 2012 and 2011

Note 6 - Administrative Expenses

The administrative expenses charged directly to the Trust consist of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Trustee and recordkeeper	\$ 419,873	\$ 479,715
Legal and accounting	133,801	109,284
Asset management and other	<u>1,700,249</u>	<u>1,601,149</u>
	<u>\$ 2,253,923</u>	<u>\$ 2,190,148</u>

Administrative expenses as a percentage of average net assets are as follows for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Trustee and recordkeeper	0.08%	0.09%
Legal and accounting	0.02%	0.02%
Asset management and other	<u>0.31%</u>	<u>0.31%</u>
	<u>0.41%</u>	<u>0.42%</u>

Note 7 - Federal Income Taxes

Each entity has received a determination letter from the Internal Revenue Service (IRS) stating that its Plan qualifies for exemption from taxation. The Plans have been amended since receiving the latest determination letters; however, the Plans' administrators believe the Plans are designed in compliance with the applicable requirements of the IRC and are being operated as designed. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Plans are subject to audits by the IRS for certain tax periods based on applicable laws and regulations; however, there are currently no audits for any tax periods in progress.