



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Mountlake Terrace

Snohomish County

For the period January 1, 2015 through December 31, 2015

Published June 12, 2017

Report No. 1019181





**Office of the Washington State Auditor
Pat McCarthy**

June 12, 2017

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Mountlake Terrace's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

| | |
|--|-----|
| Schedule Of Findings And Questioned Costs..... | 4 |
| Schedule Of Audit Findings And Responses..... | 6 |
| Summary Schedule Of Prior Audit Findings | 14 |
| Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards | 15 |
| Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance | 18 |
| Independent Auditor’s Report On Financial Statements | 21 |
| Financial Section..... | 25 |
| Corrective Action Plan For Findings Reported Under Uniform Guidance | 101 |
| About The State Auditor’s Office..... | 102 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Mountlake Terrace
Snohomish County
January 1, 2015 through December 31, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Mountlake Terrace are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

| <u>CFDA No.</u> | <u>Program or Cluster Title</u> |
|-----------------|-----------------------------------|
| 20.205 | Highway Planning and Construction |

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2015-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mountlake Terrace Snohomish County January 1, 2015 through December 31, 2015

2015-001 The City's internal controls over accounting and financial reporting were inadequate to ensure accurate, complete and timely reporting.

Background

City Council members, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. It is the City's responsibility to design and follow internal controls that provide reasonable assurance regarding the financial reporting's reliability. Our audit identified deficiencies in internal controls that hinder the City's ability to produce accurate financial statements.

The City's financial director position was vacated in June 2015 and was not permanently filled until September 2015. The City experienced turnover in the position again in February 2016 and hired the current Finance Director in March 2016.

State law (RCW 43.09.230) requires the City to submit its annual report to our Office within 150 days of fiscal year's end. The annual report includes financial statements, supporting schedules and notes to the financial statements. The City missed the deadline and did not provide a complete set of fiscal year 2015 financial statements until December 2016.

Description of Condition

Our audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- Although the City has procedures in place to perform a final review of the prepared financial statements, the review did not detect material errors.
- The City incorrectly implemented Government Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions.
- The City relied on a financial statement Excel spreadsheet to determine the classification of the operating grants, contributions, interest and capital grants

and contributions balances on the Statement of Activities. The formulas pulled the wrong information, which caused misclassifications.

- The City does not have an effective control in place to ensure Storm Water Utility Fund net investment in capital assets is valued correctly.
- The City does not have a process in place to identify all accounts payable to ensure ending payable and related expenditure balances are complete at year-end.
- The City does not have a formal policy or effective control to correctly classify construction in progress and depreciable assets for Governmental Activities at year-end.
- The City could not provide support for a miscellaneous revenues adjustment that reduced the Water Utility Fund by \$235,216.

Cause of Condition

The City experienced turnover in the Finance Director position during the audit period. The new Finance Director does not have recent experience preparing financial statements in accordance with generally accepted accounting principles (GAAP).

Due to the transition's timing, the City was unable to dedicate the necessary time, resources and training to ensure the financial statements were free from material errors and completed within 150 days after year-end.

In addition, the City contracted with a consultant to prepare its financial statements. However, the consultant failed to meet the prescribed deadlines, resulting in the City having to prepare the financial statements.

Effect of Condition

Inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies, and other interested parties. It also hinders the audit process and increases audit costs.

We identified the following errors in the financial statements:

- The City reported net position beginning of year of \$22,338,473, which did not tie to the prior year net position end of year 2014 of \$24,535,893. This caused beginning net position to be understated by \$2,197,420.
- The City relied on the prior year's financial statement package to determine required disclosures/schedules for other post-employment benefits (OPEB)

and did not prepare the Schedule of Funding Progress, which is required supplementary information for OPEB under GASB Statement No. 45.

- As part of the implementation of GASB Statement No. 68, we noted that while the City did report the amounts related to its PERS 2 pension plan, it did not report the amounts related to plans PERS 1, LEOFF 1 and LEOFF 2 in its financial statements. This caused the following misstatements related to Governmental Activities:
 - Net Pension Asset was understated by \$1,480,221.
 - Net Pension Liability was understated by \$1,909,743.
 - Deferred Inflows related to pensions was understated by \$514,687.
 - Deferred Outflows related to pensions was understated by \$265,007.
 - Change in accounting principle was underreported by \$5,750,613.
- Required Supplementary Information (RSI) for pension related information, which is required supplementary information for the implementation of GASB Statement No. 68, was not prepared.
- The City reported total operating grants, contributions and interest of \$3,313,669. However, this balance included transactions that are capital in nature and should have been reported in capital grants and contributions. This balance should be reported as \$725,649. This resulted in a classification error of \$2,588,020.
- The City reported total capital grants and contributions of \$312,047. However, this balance did not include all capital related transactions, because some items were misclassified in operating grants and contributions. This balance should be reported as \$2,913,105. This resulted in a classification error of \$2,601,058.
- The City did not include the fiscal year 2015 amortization of bond premiums (\$9,485) in the calculation and incorrectly included the net pension liability instead of the long-term portion of the revenue bond payable (\$7,461,854). This caused the City to overstate net investment in capital assets by \$7,483,684 in the Storm Water Utility Fund and overstate net investment in capital assets for Business-Type Activities by \$7,499,764.
- The City understated accounts payable and expenditures by \$292,266 in the Street Construction Fund, because it did not accrue back construction costs for

the 228th corridor project that took place between September 2015 and November 2015.

- Three construction projects in progress that relate to old plans and designs for a new city hall/civics facility are no longer planned for completion. Because these plans no longer provide value to the City, they should have been expensed. The City also did not capitalize three additional projects that were substantially complete at year-end. These errors resulted in the City overstating assets and understating expenses by \$839,988 in Governmental Activities.

The City corrected all errors identified above except for those related to construction in progress.

Because the City did not complete its fiscal year 2015 financial statements in a timely manner, it missed its requirement to receive a federal audit within nine months after year-end. By not completing federally mandated audits by the required deadline, the City may be at risk of losing future federal funding or having to repay funds already received.

Recommendations

We recommend the City:

- Allocate adequate staff time to research, prepare and review the annual financial report to ensure it is fairly presented, complete and accurate in compliance with GASB standards and pronouncements.
- Ensure accounting standards are fully researched and properly implemented in accordance with GASB Statements.
- Establish an effective control process for year-end accruals and communicate this to all staff involved with this process to ensure all expenditures are recorded in the correct accounting period in accordance with GAAP.
- Establish written guidelines and strengthen the review process of projects included in the construction in progress balance to determine when a capital project is substantially complete and should be capitalized.
- Complete annual financial reports in a timely manner to ensure federal mandated audits are completed by the required deadline of nine months past year-end. Further, the City should also file complete financial statements with the State Auditor's Office within 150 days after the close of each fiscal year to ensure compliance with state law (RCW 43.09.230).

City's Response

The City of Mountlake Terrace appreciates the opportunity to respond to the deficiencies identified by the staff of the Washington State Auditor's Office and acknowledges that it did not have sufficient internal controls in place to ensure that the financial statements were free of error and submitted in accordance with the reporting deadline prescribed by state law. As noted below, the City corrected all errors identified except for those related to construction in progress. These were deemed to be of minor importance to the accuracy of the overall financial statements and that allowing adequate time to prepare the 2016 financial statements was a better use of staff time.

The City experienced turnover in the Financial Director position in both June of 2015 and again in February of 2016. This position is the only position at the City that has sufficient knowledge and background necessary to prepare the financial statements. The City hired a consultant who had intimate knowledge of the City's financials and reporting tool in hopes of minimizing the impacts to the City. After multiple deadlines were missed the City was forced to terminate the agreement and compile the financials in house.

The City understands the importance of accurate financial statements and reports and will continue to work towards improving policies and procedures that help provide reasonable assurance of reliability. We appreciate the guidance and continued support of the Washington State Audit staff as we continue to improve our financial reporting process.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

Deficiency in internal control. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control

does not possess the necessary authority or competence to perform the control effectively.

Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Probable. The future event or events are likely to occur.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

.All Indicators of material weaknesses in internal control include

- identification of fraud, whether or not material, on the part of senior management. For the purpose of this indicator, the term “senior management” includes the principal executive and financial officers as well as any other members of senior management who play a significant role in the entity's financial reporting process;
- restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control; and

- ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mountlake Terrace Snohomish County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Mountlake Terrace. The State Auditor's Office has reviewed the status as presented by the City.

| | | |
|---|------------------------------------|--------------------------------------|
| Audit Period: January 1, 2014 through December 31, 2014 | Report Ref. No.: 1014651 | Finding Ref. No.: 2014-001 |
| Finding Caption: The City's internal controls over year-end closing procedures for payables were not adequate to ensure the financial statements were accurate and complete. | | |
| Background: The fiscal year 2014 audit identified a weakness in the City's procedures for processing year-end accruals over accounts and wages payables, which represented a significant deficiency. Our audit found City staff did not correctly accrue expenses that occurred prior to December 31, 2014 but were paid in January and February 2015 by reducing cash and the corresponding accounts payable balances. This method of accounting is not in accordance with Generally Accepted Accounting Principles (GAAP) and does not accurately reflect the status of cash and payables as of the fiscal year-end. | | |
| Status of Corrective Action: <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid | | |
| Corrective Action Taken: <i>City staff modified the City's procedures for processing year-end accruals over accounts and wages payable to comply with Generally Accepted Accounting Principles (GAAP) and to accurately reflect the status of cash and payables. The change in procedure was implemented in July of 2015.</i> | | |

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Mountlake Terrace
Snohomish County
January 1, 2015 through December 31, 2015**

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 11, 2017. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY'S RESPONSE TO FINDINGS

The City's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy

State Auditor

Olympia, WA

May 11, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Mountlake Terrace
Snohomish County
January 1, 2015 through December 31, 2015**

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the City of Mountlake Terrace, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

May 11, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mountlake Terrace Snohomish County January 1, 2015 through December 31, 2015

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

REPORT ON THE FINANCIAL STATEMENTS

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 Mountlake Terrace, Snohomish County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 25.

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.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 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 City'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 City'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 opinions.

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 Mountlake Terrace, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 27 through 40, budgetary comparison information on pages 88 through 89, information on postemployment benefits other than pensions on page 90 and pension plan information on pages 91 through 97 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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Pat McCarthy

State Auditor

Olympia, WA

May 11, 2017

FINANCIAL SECTION

**City of Mountlake Terrace
Snohomish County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Statement of Net Position – Fiduciary Funds – 2015

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Construction – 2015

Schedule of Funding Progress – Other Post-Employment Medical Benefits (OPEB) – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2015

Schedule of Employer Contributions – PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2015

Schedule of Employer Contributions – PERS 2/3 – 2015
Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1 – 2015
Schedule of Proportionate Share of the Net Pension Liability – LEOFF 2 – 2015
Schedule of Employer Contributions – LEOFF – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2015
Notes to the Schedule of Expenditures of Federal Awards – 2015

Within this section of the City of Mountlake Terrace, Washington ("the City") annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2015. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by \$55,617,943 (net position) for the calendar year reported.
- Total net position are comprised of the following:
 - (1) Net investment in capital assets, of \$54,896,258 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$2,729,168 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of (\$2,007,483) represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$3,074,046 this year. This compares to the prior year ending fund balance of \$4,830,906, showing a decrease of \$1,756,860 or 36% during the current year.
- Overall, the City continues to maintain a strong financial position.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis (MD&A) document introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and the elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of position presenting information that includes all of the City's assets, deferred outflow and inflow of resources, and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

An important purpose of the *Statement of Activities* is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

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Governmental activities included in this statement are general government, judicial, public safety, physical environment, transportation, economic environment and culture and recreation. Business-type activities include water, sewer and storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements are presented on pages 30 and 31 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. For example, the Street Fund accounts for dollars associated with street maintenance. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The City has three kinds of funds: Governmental, Proprietary and Fiduciary

- *Governmental funds* are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements such as police, fire and administration. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term calendar accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund operating statement provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 32 - 35 of this report.

Individual fund information for nonmajor governmental funds is found in combining statements in a later section of this report.

- *Proprietary funds* are reported in the fund financial statements and generally report services for which the City charges customers a fee such as water, sewer and storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund.

The basic enterprise fund financial statements are presented on pages 36 - 39 of this report.

- *Fiduciary fund* type represents funds held in trust, and includes the firemen's pension trust fund and seven agency funds. The statements for these funds are presented on pages 40 and 41.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 44 of this report.

Required Supplementary Information

This section includes the budgetary schedules for the general fund and the street construction fund. We present other budgetary schedules in the supplementary information section on pages 80 - 129.

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Supplementary Information

Combining and comparative individual statements and schedules for some major and nonmajor funds are presented as supplementary information in this report beginning on page 80.

Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$55,617,943. The following table provides a summary of the City's net position:

Summary of Net Position at December 31, 2015

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Assets: | | | | | | |
| Current assets | \$ 5,449,280 | \$ 6,594,344 | \$ 4,648,608 | \$ 4,826,415 | \$ 10,097,888 | \$ 11,420,759 |
| Capital assets | 28,162,309 | 24,490,807 | 40,876,078 | 39,289,189 | 69,038,387 | 63,779,996 |
| Noncurrent assets | 2,146,226 | 709,911 | 5,356,630 | 7,423,977 | 7,502,856 | 8,133,888 |
| Total assets | 35,757,815 | 31,795,062 | 50,881,316 | 51,539,581 | 86,639,131 | 83,334,643 |
| Deferred Outflows | 606,536 | - | 78,823 | - | 685,359 | - |
| Total Assets and Deferred Outflows | 36,364,351 | 31,795,062 | 50,960,139 | 51,539,581 | 87,324,490 | 83,334,643 |
| Liabilities: | | | | | | |
| Current liabilities | 1,887,441 | 1,553,358 | 1,431,624 | 812,318 | 3,319,065 | 2,365,676 |
| Noncurrent liabilities | 9,845,790 | 5,705,811 | 17,298,768 | 17,424,086 | 27,144,558 | 23,129,897 |
| Total liabilities | 11,733,231 | 7,259,169 | 18,730,392 | 18,236,404 | 30,463,623 | 25,495,573 |
| Deferred Inflows | 1,117,655 | - | 125,269 | - | 1,242,924 | - |
| Total Liabilities and Deferred Inflows | 12,850,886 | 7,259,169 | 18,855,661 | 18,236,404 | 31,706,547 | 25,495,573 |
| Net position: | | | | | | |
| Net investment in capital assets | 27,227,309 | 23,230,807 | 27,668,949 | 27,396,040 | 54,896,258 | 50,626,847 |
| Restricted | 1,471,318 | 1,635,640 | 1,257,850 | 1,257,850 | 2,729,168 | 2,893,490 |
| Unrestricted | (5,185,162) | (330,554) | 3,177,679 | 4,649,287 | (2,007,483) | 4,318,733 |
| Total net position | \$ 23,513,465 | \$ 24,535,893 | \$ 32,104,478 | \$ 33,303,177 | \$ 55,617,943 | \$ 57,839,070 |

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 2.9 to 1 as compared to 4.6 to 1 at December 31, 2014. The current ratio for the business-type activities at December 31, 2015 is 3.2 to 1 as compared to 5.9 to 1 at December 31, 2014. For the City overall, the current ratio is 3 to 1 as compared to 5.1 to 1 at December 31, 2014. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position decreased \$1,022,428 for governmental activities and decreased by \$1,198,699 for business-type activities. The City's overall financial position decreased during calendar year 2015 by \$2,221,127.

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Note that 115.8% of the governmental activities' net position is committed to in capital, such as building, infrastructure, vehicles and equipment. The City uses these capital assets to provide services to its citizens. However, with business-type activities, the City has spent 86.2% of its net position. Capital assets in the business-type activities also provide water, sewer and storm water services, but they also generate revenues for this fund. Overall, 98.7% of the City's total net position is included in capital assets.

The following table provides a summary of the City's changes in net position:

| | Summary of Changes in Net Position | | | | | |
|---|------------------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | | | |
| Program: | | | | | | |
| Charges for services | \$ 5,489,165 | \$ 5,352,823 | \$ 8,443,002 | \$ 8,634,235 | \$ 13,932,167 | \$ 13,987,058 |
| Operating grants | 725,648 | 951,241 | - | - | 725,648 | 951,241 |
| Capital grants | 2,913,105 | 1,779,112 | 153,316 | 82,871 | 3,066,421 | 1,861,983 |
| General: | | | | | | |
| Taxes | 12,068,561 | 11,233,143 | - | - | 12,068,561 | 11,233,143 |
| Other | 239,360 | 311,223 | (62,427) | 186,895 | 176,933 | 498,118 |
| Total revenues | <u>21,435,839</u> | <u>19,627,542</u> | <u>8,533,891</u> | <u>8,904,001</u> | <u>29,969,730</u> | <u>28,531,543</u> |
| Program Expenses: | | | | | | |
| General government | 2,046,150 | 2,186,641 | - | - | 2,046,150 | 2,186,641 |
| Judicial | 821,344 | 794,585 | - | - | 821,344 | 794,585 |
| Public safety | 9,209,169 | 9,168,655 | - | - | 9,209,169 | 9,168,655 |
| Physical environment | 868,515 | 806,910 | - | - | 868,515 | 806,910 |
| Transportation | 2,050,548 | 2,588,057 | - | - | 2,050,548 | 2,588,057 |
| Economic environment | 100,430 | 443,411 | - | - | 100,430 | 443,411 |
| Culture and recreation | 3,530,817 | 3,596,706 | - | - | 3,530,817 | 3,596,706 |
| Interest | 80,487 | 103,116 | - | - | 80,487 | 103,116 |
| Sewer utility | - | - | 3,288,912 | 3,256,624 | 3,288,912 | 3,256,624 |
| Water utility | - | - | 3,761,225 | 3,579,075 | 3,761,225 | 3,579,075 |
| Storm water utility | - | - | 1,866,027 | 1,886,544 | 1,866,027 | 1,886,544 |
| Total expenses | <u>18,707,460</u> | <u>19,688,081</u> | <u>8,916,164</u> | <u>8,722,243</u> | <u>27,623,624</u> | <u>28,410,324</u> |
| Revenues over (under) expenses | 2,728,379 | (60,539) | (382,273) | 181,758 | 2,346,106 | 121,219 |
| Beginning net position | <u>24,535,893</u> | <u>24,596,432</u> | <u>33,303,177</u> | <u>33,121,419</u> | <u>57,839,070</u> | <u>57,717,851</u> |
| Beginning of year change in Accounting Principle (GASB 68) | (3,750,807) | - | (816,426) | | (4,567,233) | |
| Ending net position | <u>\$ 23,513,465</u> | <u>\$ 24,535,893</u> | <u>\$ 32,104,478</u> | <u>\$ 33,303,177</u> | <u>\$ 55,617,943</u> | <u>\$ 57,839,070</u> |

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GOVERNMENTAL ACTIVITIES-REVENUES

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. The total 2015 tax revenues were \$835,418 more than those reported in 2014. Real estate taxes were \$202,579 more than 2014. Sales taxes increased \$85,460 over 2014 or 4%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

Utility taxes increased \$13,698 or just 5/10th of 1%. Excise taxes increased \$950 or 1/10th of 1%. Real estate excise taxes increased \$506,631.

In total, taxes make up 56.3% of the total revenues stream as compared to 57.2% in 2014. Property taxes make up 20.5% of revenues, as compared to 21.3% in 2014 and the utility taxes make up 14.2% of total revenues as compared to 15.4% in 2014.

The operating grants for general government included the following:

- Liquor Board Taxes from the State of Washington: \$250,956
- City Assistance from the State of Washington: \$113,852
- SNOCOM Fiscal Agent Services: \$14,470
- Washington State Department of Commerce Grant: \$6,930
- PUD Privilege Tax in lieu of Property Tax: \$91,406
- Snohomish County Conservation Futures Grant Property Acquisition: \$280,921

The operating grants for public safety included:

- National Highway Traffic Safety Grants: \$2,979
- HUD Low Income Housing Assistance for Section 8 Police Protection: \$10,108

The source of the operating and capital grants of \$447,010 for transportation is the City's share of the State's Motor Vehicle Fuel Tax.

The capital grants for transportation included the following:

- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for design of Lakeview Trail: \$2,070,599
- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for design of Main Street Reconstruction: \$225,586
- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for Quick Response Safety Program: \$2,000
- Federal Highway Administration Department of Transportation Passed Through the WA State Department of Transportation for ADA Ramps: \$185,700

The City reported an investment gain of \$47,381 as compared to a \$127,407 gain in 2014. This change between years relates to unrealized gains and losses. Note that program revenues cover 48.8% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 51.2% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.



GOVERNMENTAL FUNCTIONAL EXPENSES

Of the City's governmental activities functions, 49.2% of the total costs relates to public safety in 2015 as compared to 46.6% in 2014. Culture and recreation expenses make up 18.9% as compared to 18.3% in 2014.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

| | Governmental Activities | | | |
|------------------------|--------------------------------|----------------------|-----------------------------|----------------------|
| | Total Cost of Services | | Net Cost of Services | |
| | 2015 | 2014 | 2015 | 2014 |
| General government | \$ 2,046,150 | \$ 2,186,641 | \$ (278,628) | \$ (29,604) |
| Judicial | 821,344 | 794,585 | 500,363 | 429,918 |
| Public safety | 9,209,169 | 9,168,655 | 8,698,055 | 8,755,821 |
| Physical environment | 868,515 | 806,910 | 317,027 | 190,120 |
| Transportation | 2,050,548 | 2,588,057 | (1,189,894) | 392,871 |
| Economic environment | 100,430 | 443,411 | (176,134) | 232,120 |
| Culture and recreation | 3,530,817 | 3,596,706 | 1,628,266 | 1,530,542 |
| Interest | 80,487 | 103,116 | 80,487 | 103,116 |
| Total | \$ 18,707,460 | \$ 19,688,081 | \$ 9,579,542 | \$ 11,604,904 |

BUSINESS-TYPE ACTIVITIES ANALYSIS

The City maintains three enterprise funds, each of these funds reported the following operating income or (loss) for the last two calendar years:

| Fund | Operating Income (Loss) | | % |
|---------------------|--------------------------------|-------------------|---------------|
| | 2015 | 2014 | Change |
| Sewer Utility | \$ 291,029 | \$ 486,414 | -40% |
| Water Utility | (312,673) | (191,843) | -63% |
| Storm Water Utility | 199,419 | 127,051 | 57% |
| Total | \$ 177,775 | \$ 421,622 | -58% |

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The following analysis is provided for the major enterprise funds.

Sewer Utility Fund – Revenues from charges for services decreased \$167,419 or 4.5% in 2015 over that of 2014.

Operation and maintenance costs increased \$85,437 or 3% above the 2014 amount. Depreciation expense decreased \$57,471 or 17% in 2015. In this year, this fund did not transfer resources to other funds. At December 31, 2015, net position totals \$9,830,014. Of this amount, \$7,448,743 or 75.8% is tied up in capital assets.

Water Utility Fund – Revenues from charges for services decreased \$22,646 or 7/10th of 1%.

Operations and maintenance costs increased \$23,644 or 8/10th of 1% above the 2014 amount. Depreciation expense increased \$74,540. As a result, the operating loss increased from a loss of \$191,843 in 2014 to a \$312,673 operating loss in 2015. Interest expense increased \$31,506 when additional debt was issued in 2015.

In this year, this fund did not transfer resources to other funds. At December 31, 2015, the net position totaled \$15,927,576. Of this amount, \$14,579,657 or 91.5% is tied up in capital assets.

Storm Water Utility Fund - Charges for services decreased \$1,168 over 2014.

Operations and maintenance expenses decreased \$196,874 or 13.8% from the 2014 amount. Interest expense increased \$72,762. As stated above, interest expense increased when additional debt was issued in 2015.

At December 31, 2015, the net position total was \$6,693,468. Of this amount, \$5,640,549 or 84.3% is tied up in capital assets.

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$3,078,035 as compared to the amount of \$4,830,906 at December 31, 2014.

The restricted amount at December 31, 2015 was \$1,475,307, relating primarily to capital improvements \$925,830 and \$549,477 for a variety of other restrictions.

Over \$1.4 million is committed, primarily for working capital and for revenue fluctuations. The street construction fund reports approximately \$134 thousand assigned to street construction.

The total ending fund balances of governmental funds show a decrease of approximately \$1 million compared to \$1.6 million at December 31, 2014.

Major Governmental Funds

General Fund - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$315,935 or 17.6% in 2015. This decrease relates primarily to a \$324,000 transfer to the street construction fund. In calendar year 2014, the fund balance decreased \$886,001 or 33%. The amount of fund balance is determined by the amount of transfers to other funds.

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Total revenues increased \$205,498 or 1.3% in 2015. Total taxes increased \$322,319 or 3.1%. Property taxes were up \$202,579 or 4.8% above the 2014 amount. Sales taxes increased \$85,460 or 4%.

Utility taxes increased just \$13,698 or 5/10th of 1%. Excise taxes increased \$950 or 1/10th of 1%. The reduction in gambling tax revenues seen in previous years seems to have leveled off.

In total, licenses and permits were up \$32,853 or 4% above the 2014 amount. These increases relate to franchise fees, which were up \$11,867 or 4%.

Business license revenues in 2015 were \$116,133 compared to \$100,991 in 2014.

In total, intergovernmental revenue increased \$60,160 or 11.2% above the 2014 revenue amount.

Total charges for services decreased \$175,364 or 5.7%. The recreation fees decreased \$163,613 from last year.

Other charges for services was \$107,757 or 24.1% below the 2014 amount because the City terminated the Washington State Criminal Justice Trainer contract, which equated to a decrease in revenue of \$100,000 over the 2014.

Fines and forfeitures decreased \$43,686 below the 2014 amount. Investment earnings decreased for a 2015 loss of \$20,592. Most other revenues were consistent with calendar year 2014.

In 2015, total expenditures increased \$471,356 or 3.1% above the 2014 amount. The general government expenditures increased \$2,989. Within the general government function, the following increases from the prior year occurred:

- Legislative/Executive - \$57,774 or 8.5% decrease due to a reclassification of expenses to Community Development.
- Property management - \$144,588 or 18.8% - As discussed in the budget analysis section below, the reduction of expenditures recognized with the property management budget from utilities in 2015 was \$84,333 and an additional \$449,638 from the Recreation Fund that was treated as a reduction of expenditures in the Property Management department, and an expenditure in the Recreation Fund expenditures for property management services (total \$433,971).

Judicial costs increased \$30,262 or 3.8%.

Police expenditures increased \$607,728 or 12.3%

Finally, the culture and recreation costs were \$79,850 or 2.5% more than the prior year.

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Street Construction Fund – During 2015, this fund recognized \$3,106,620 in revenues, primarily intergovernmental revenue. Intergovernmental revenue was \$1,095,043 or 72.7% above the 2014 amount. This fund expended \$4.4 million for construction projects or approximately \$1.6 million more than in 2014.

This fund reported ending fund balance of \$130,382 or a decrease of \$1,294,814 or 91% below the December 31, 2014 amount.

Capital Improvements Fund – In 2015, the City recognized \$313,074 in various revenue sources. This fund expended \$664,040 during 2015. The general fund transferred in \$273,538 to this fund to finance capital improvement expenditures. At December 31, 2015, the City reported a fund balance of \$912,404 as compared to an \$989,882 balance at December 31, 2014.

Budgetary Highlights – General Fund

The General Fund's revenue budget was amended downward in calendar year 2015 by \$1,000,000 or 5.9%. This adjustment primarily was to decreases in Taxes, Licenses and Permits, Charges for Services and Fines and Forfeitures revenue budgets.

In total, tax revenue was \$147,902 below the budget. The excise tax revenue was the only revenue source that was above the final budget, or \$60,928 or 7.2% above the final budget.

License and permits were \$88,520 above the final budget. Permits and fees and Franchise taxes were above budget in 2015.

The local government assistance was \$17,339 or 18% over the budget because the State of Washington increased its City assistance allocation, which was higher than anticipated when the 2015 budget was developed.

Similar to last year, no budget was adopted for interfund charges for services due to the change in accounting for reimbursements.

Planning fees were \$30,164 or 12.2% above the final budget because many anticipated new projects were deferred from 2014 to 2015.

Recreation fees were below the budget by \$236,669 because of a unanticipated pool closure in 2015 necessary for maintenance and repair.

In total, the City realized 98.6% of estimated revenues.

With regard to General Fund expenditure budget, it was amended downward \$447,141 or 2.7%.

The total general government budget was under spent by \$264,820 or 1.6%. The City no longer reports interfund charges. In 2014, the State of Washington Auditor's Office required that all interfund services be reclassified from Interfund Service revenues to a reduction of general government expenses.

Finally, the culture and recreation was under spent by \$315,049 or 8.7% because of lower costs at the City's aquatic center.

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Capital Assets and Debt Administration

Capital Assets

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2015 was a 15% increase for governmental activities and a 4% increase for business-type activities. The overall increase was 8.2% for the City as a whole. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity:

| | Governmental Activities | | Business Activities | | Total | |
|---------------------------------|-------------------------|---------------|---------------------|---------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Nondepreciable assets: | | | | | | |
| Land | \$ 1,855,003 | \$ 1,538,605 | \$ 2,128,469 | \$ 2,128,469 | \$ 3,983,472 | \$ 3,667,074 |
| Construction in progress | 2,798,497 | 2,805,166 | 433,569 | 393,307 | 3,232,066 | 3,198,473 |
| Total nondepreciable assets | 4,653,500 | 4,343,771 | 2,562,038 | 2,521,776 | 7,215,538 | 6,865,547 |
| Depreciable assets: | | | | | | |
| Buildings | 13,341,967 | 13,197,507 | 2,744,174 | 2,744,174 | 16,086,141 | 15,941,681 |
| Improvements | 1,545,086 | 1,545,086 | 21,168 | 21,168 | 1,566,254 | 1,566,254 |
| Machinery and equipment | 5,928,244 | 5,873,855 | 586,088 | 607,379 | 6,514,332 | 6,481,234 |
| Infrastructure | 32,047,694 | 27,241,215 | 50,728,200 | 48,376,300 | 82,775,894 | 75,617,515 |
| Intangibles | - | - | 3,459,909 | 3,011,158 | 3,459,909 | 3,011,158 |
| Total depreciable assets | 52,862,991 | 47,857,663 | 57,539,539 | 54,760,179 | 110,402,530 | 102,617,842 |
| Less accumulated depreciation | 29,354,182 | 27,710,626 | 19,225,499 | 17,992,766 | 48,579,681 | 45,703,392 |
| Book value - depreciable assets | 23,508,809 | 20,147,037 | 38,314,040 | 36,767,413 | 61,822,849 | 56,914,450 |
| Percentage depreciated | 56% | 58% | 33% | 33% | 44% | 45% |
| Book value - all assets | \$ 28,162,309 | \$ 24,490,808 | \$ 40,876,078 | \$ 39,289,189 | \$ 69,038,387 | \$ 63,779,997 |

At December 31, 2015, the depreciable capital assets for governmental activities were 56% depreciated. This compares favorably with the December 31, 2014 percentage of 58%.

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At December 31, 2015, the major projects included in the governmental activities construction in progress include:

- Master Campus Plan/CFAT Detail: \$411,456
- Town Center: \$444,893
- Electrical Undergrounding – Main Street: \$150,149
- Main Street Construction and Design: \$1,022,459
- Lakeview Trail: \$180,973
- Street Lights for Town Center/Arbor Village: \$208,641

Governmental activities infrastructure increased approximately \$4.5 million consisting primarily of:

- 236/Cedar Way Signal Upgrade: \$60,063
- 236th Pedestrian Accessibility : \$319,457
- Lakeview Trail: \$4,036,981
- ADA Curb Improvements: \$80,432
- Harms Property Acquisition: \$316,398

With the City's business-type activities, 33% of the asset values were depreciated at December 31, 2015, as compared to 33% at December 31, 2014. Again, a positive indicator.

At December 31, 2015, the major projects included in the business-type activities construction in progress include:

- 44th & 224th Construction: \$76,710
- Main Street: \$311,917

Business-type activities infrastructure increased approximately \$433,000 consisting primarily of:

- North Side Water Main Construction: \$1,619,441
- 236th Pedestrian Accessibility: \$132,101
- Lakeview Trail: \$306,371
- 216th Storm Water Improvement: \$47,602





Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2015 and 2014.

Outstanding Borrowings

| | Governmental Activities | | Business-type Activities | | Totals | |
|------------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| General obligation bonds | \$ 2,095,000 | \$ 2,615,000 | \$ - | \$ - | \$ 2,095,000 | \$ 2,615,000 |
| Revenue bonds - net | - | - | 16,636,788 | 17,337,881 | 16,636,788 | 17,337,881 |
| Public works trust fund loan | 90,000 | 120,000 | 676,284 | 775,268 | 766,284 | 895,268 |
| OPEB | 3,418,375 | 2,607,055 | - | - | 3,418,375 | 2,607,055 |
| Pension Liability | 4,044,240 | - | 701,963 | - | 4,746,203 | - |
| Compensated absences | 799,644 | 822,811 | 103,397 | 99,902 | 903,041 | 922,713 |
| Total | <u>\$10,447,259</u> | <u>\$ 6,164,866</u> | <u>\$ 18,118,432</u> | <u>\$ 18,213,051</u> | <u>\$ 28,565,691</u> | <u>\$ 24,377,917</u> |

In a report issued on December 3, 2014, Standard & Poor's (S&P) assigned its 'AA' Rating to the city's 2014 series water and sewer revenue bonds that Council authorized on December 1, 2014. The only ratings higher are "AAA" and "AA+", which few municipalities have achieved. S & P also affirmed its 'AA' long-term rating on the City's previously issued series 2012 and 2010 water and sewer bonds.

S&P assigned the city an 'AA' rating with a stable outlook. It also notes the city has good financial policies and practices, including formal quarterly financial performance reviews and the maintenance of a six-year forecasting model. Additional key statements from the report:

- Service area economy with good to strong income levels that participates in the broad and diverse Seattle metropolitan area economy.
- Stable, primarily residential, and very diverse customer base.
- Ample water supply with sewage treatment capacity, with a long-term wholesale contract in place for water service.
- Affordable service rates coupled with a demonstrated willingness and ability to adjust rates to match operating needs.
- Historically strong liquidity position and senior-lien debt service coverage (DSC) before transfers for city utility taxes.
- The stable outlook reflects our view of the utility's robust and institutionalized array of management practices, which provide a framework for the utility to identify and respond to unanticipated financial challenges.

The 'AA' Bond Rating, which is an extraordinary achievement for our City, will translate into lower financing costs by attracting a broader range of investors. This rating is also a positive reflection of the City's effectiveness in managing its financial resources during one of the most difficult economic times in several generations.

(this page continued on the subsequent page)





On February 7, 2012, Moody's Investors Service affirmed the A1 rating on the City's \$2 million of outstanding Limited Tax General Obligation debt. The Moody's rating affirmation "reflects the City's high overall available fund balances, low debt burden, and continued strong management through the regional economic downturn. Despite a large drop in assessed value (AV), the City benefits from a city council that has shown a willingness to add revenue streams, as well as Washington law that allows for 1% annual increase to property tax levy." See Note 3F for additional information regarding changes in the City's long-term liabilities.

Economic Conditions Affecting the City

2015 was another successful year for the City - a year of maintaining strong finances, delivering a high standard of services to the community, and seeing the realization of the City Council's vision for a revitalized Town Center.

The City's effectiveness in managing its financial resources while focusing on City Council goals with the community has come about by adhering to the Six-Year Financial Forecast. This was done by pursuing grant opportunities, continuing to partner with the public and private sectors, continuing communication with State and Federal elected officials to ensure they are aware of local governments' needs, and not spending one-time funds on ongoing commitments.

Today we are continuing to build a community that is beautiful, accessible and inviting, and which sustains and improves the quality of life and supports economic development.

Financial Stability - Throughout the recession, the City Council was diligent about ensuring that Mountlake Terrace maintains its financial health. This continues to be a focus of the Council because strong, healthy finances help ensure the City is able to provide high quality services both now and into the future.

The Council has maintained the City's finances by adhering to the Six-Year Financial Forecast that ensures we stay within our means while focusing on the community's needs. This involves quarterly reviews of the City's finances, including a comparison of prior revenues and expenditures by fund and department.

Although the economy is rebounding we must continue providing general government services with the revenue that is available today, rather than overspending with the assumption that the economy will continue to improve.

To expand available revenues, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space areas. In 2015, for example, the City used grants to build a new state of the art Emergency Operating Center, put in new playground equipment in our city parks, begin the design of Lakeview Trail and continue the design of Main Street in the Town Center. The City also obtained a grant in 2015 to purchase three acres of forested land adjacent to Terrace Creek Park.

Service to the Community - The result of the City Council's adherence to the Financial Forecast is that the City has been able to maintain - and in some areas increase - the delivery of municipal services provided to the community.

The community's appreciation for this level of service is seen in the high marks reported in the 2014 Community Satisfaction Survey, which showed that life is good in Mountlake Terrace. Most survey respondents felt positively about the overall quality of life in Mountlake Terrace. They also valued their neighborhoods; the city as a place to live, raise children and retire; and its overall appearance. The vast majority of residents would recommend living in the community and planned on staying.

Residents also identified through the survey that the economy was one of the facets most important to their overall quality of life, conveying a concern for the overall economic health of the community through strong support for funding programs related to economic development and business recruitment.

The survey also showed that residents experience good mobility and that they support transportation improvements, which is a sign that the City Council continues to head in the right direction by investing in roads, sidewalks, trails and bike lanes. A majority of respondents found walking and biking through the community to be good and about half had reduced single-occupancy vehicle trips through carpooling, walking or biking. The vast majority of respondents felt it was essential or very important for the City to address street maintenance and improvement projects. Furthermore, most residents felt that increased taxes or fees were definitely warranted to fund new or expanded sidewalks programs.

(this page continued on the subsequent page)





Economic Development - Since 2007, a key goal of the City Council has been a focus on economic development as a tool to increase the financial resources available to the community to ensure quality delivery of services.

At the same time, new development generates additional property and sales taxes, which in turn reduces what residents have to pay for public services.

The current level of development activity in Mountlake Terrace reflects very positively upon our community. The City Council's actions in 2007 are bearing fruit in terms of numerous development projects completed or underway in the Town Center, adding over 245 housing units and more than 18,000 square feet of commercial space in this redeveloping neighborhood. Throughout the City, the value of new construction in 2015 increased by almost \$17 million.

With the ongoing focus on financial health, quality service delivery and economic development, Mountlake Terrace is poised to be the future of the Puget Sound Region.

Contacting the City's Financial Management

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Manager, Scott Hugill, at (425) 776-1161.



City of Mountlake Terrace, Washington
Statement of Net Position
December 31, 2015

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents (Note 3-A) | \$ 838,932 | \$ 1,036,619 | \$ 1,875,551 |
| Investments (Note 3-A) | 2,359,954 | 2,993,947 | 5,353,901 |
| Receivables: | | | |
| Accounts | 168,965 | 950,657 | 1,119,622 |
| Taxes | 1,425,538 | - | 1,425,538 |
| Intergovernmental | 279,114 | 13,965 | 293,079 |
| Internal balances | 346,580 | (346,580) | - |
| Inventory | 30,197 | - | 30,197 |
| Total Current Assets | 5,449,280 | 4,648,608 | 10,097,888 |
| Noncurrent Assets | | | |
| Investment in joint venture | 666,005 | - | 666,005 |
| Restricted assets: cash and cash equivalents | - | 1,257,850 | 1,257,850 |
| Restricted assets: investments | - | 4,098,780 | 4,098,780 |
| Net pension Asset | 1,480,221 | - | 1,480,221 |
| Capital assets (Note 3-D) | | | |
| Nondepreciable | 4,653,500 | 2,562,038 | 7,215,538 |
| Depreciable, net | 23,508,809 | 38,314,040 | 61,822,849 |
| Total Noncurrent Assets | 30,308,535 | 46,232,708 | 76,541,243 |
| Deferred Outflow of Resources | 606,536 | 78,823 | 685,359 |
| Total Assets and Deferred Outflow of Resources | 36,364,351 | 50,960,139 | 87,324,490 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable | 660,361 | 539,577 | 1,199,938 |
| Wages payable | 322,378 | 48,898 | 371,276 |
| Intergovernmental payable | 261,999 | 23,486 | 285,485 |
| Deposits payable | 41,234 | - | 41,234 |
| Compensated absences payable | 161,469 | 20,679 | 182,148 |
| Unearned revenue | - | - | - |
| Public trust fund loan payable | - | 98,984 | 98,984 |
| Limited tax general obligation bonds payable | 230,000 | - | 230,000 |
| General obligation refunding bonds payable | 180,000 | - | 180,000 |
| Revenue bonds payable | - | 700,000 | 700,000 |
| Public works board loan payable | 30,000 | - | 30,000 |
| Total Current Liabilities | 1,887,441 | 1,431,624 | 3,319,065 |
| Long-Term Liabilities (net of current portion): (Note 3-F) | | | |
| Compensated absences payable | 638,175 | 82,718 | 720,893 |
| Net pension liability | 4,044,240 | 701,963 | 4,746,203 |
| Intergovernmental payable | - | - | - |
| Other postemployment benefits payable (Note 3-J) | 3,418,375 | - | 3,418,375 |
| Public trust fund loan payable | - | 577,300 | 577,300 |
| Limited tax general obligation bonds payable | 1,020,000 | - | 1,020,000 |
| General obligation refunding bonds payable | 665,000 | - | 665,000 |
| Revenue bonds payable | - | 15,936,787 | 15,936,787 |
| Public works board loan payable | 60,000 | - | 60,000 |
| Total Long-term Liabilities | 9,845,790 | 17,298,768 | 27,144,558 |
| Deferred Inflow of Resources | 1,117,655 | 125,269 | 1,242,924 |
| Total Liabilities and Deferred Inflow of Resources | 12,850,886 | 18,855,661 | 31,706,547 |
| Net Position | | | |
| Net investment in capital assets (Note 3-J) | 27,227,309 | 27,668,949 | 54,896,258 |
| Restricted for: | | | |
| Capital projects | 1,123,185 | - | 1,123,185 |
| Debt service | 20,128 | 1,257,850 | 1,277,978 |
| Tourism | 22,576 | - | 22,576 |
| Housing inspections | 277,845 | - | 277,845 |
| Street maintenance | 27,584 | - | 27,584 |
| Unrestricted | (5,185,162) | 3,177,679 | (2,007,483) |
| Total Net Position | \$ 23,513,465 | \$ 32,104,478 | \$ 55,617,943 |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Activities
For the Year Ended December 31, 2015

| Function/Program | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|--|----------------------|--------------------------------|--|---|-------------------------|--------------------------|----------------------|
| | Expenses | Charges for Services and Sales | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General government | \$ 2,046,150 | \$ 1,928,967 | \$ 395,811 | \$ - | \$ 278,628 | \$ - | \$ 278,628 |
| Judicial | 821,344 | 320,981 | - | - | (500,363) | - | (500,363) |
| Public safety | 9,209,169 | 508,614 | - | 2,500 | (8,698,055) | - | (8,698,055) |
| Physical environment | 868,515 | 551,488 | - | - | (317,027) | - | (317,027) |
| Transportation | 2,050,548 | - | 329,837 | 2,910,605 | 1,189,894 | - | 1,189,894 |
| Internal balances | 100,430 | 276,564 | - | - | 176,134 | - | 176,134 |
| Culture and recreation | 3,530,817 | 1,902,551 | - | - | (1,628,266) | - | (1,628,266) |
| Interest | 80,487 | - | - | - | (80,487) | - | (80,487) |
| Total Governmental Activities | 18,707,460 | 5,489,165 | 725,648 | 2,913,105 | (9,579,542) | - | (9,579,542) |
| Business-Type Activities: | | | | | | | |
| Sewer Utility | 3,288,912 | 3,521,644 | - | 15,900 | - | 248,632 | 248,632 |
| Water Utility | 3,761,225 | 3,154,775 | - | 73,506 | - | (532,944) | (532,944) |
| Storm Water Utility | 1,866,027 | 1,766,583 | - | 63,910 | - | (35,534) | (35,534) |
| Total Business-Type Activities | 8,916,164 | 8,443,002 | - | 153,316 | - | (319,846) | (319,846) |
| Total - Primary Government | \$ 27,623,624 | \$ 13,932,167 | \$ 725,648 | \$ 3,066,421 | (9,579,542) | (319,846) | (9,899,388) |
| General Revenues | | | | | | | |
| Property taxes levied for: | | | | | | | |
| General government purposes | | | | | 4,389,917 | - | 4,389,917 |
| Sales taxes | | | | | 2,241,052 | - | 2,241,052 |
| Utility taxes | | | | | 3,034,676 | - | 3,034,676 |
| Excise taxes | | | | | 910,928 | - | 910,928 |
| Real estate excise taxes | | | | | 1,014,801 | - | 1,014,801 |
| Other taxes | | | | | 477,187 | - | 477,187 |
| Gain on disposition of capital assets | | | | | 25,329 | 3,000 | 28,329 |
| Investment earnings | | | | | 47,381 | 138,695 | 186,076 |
| Miscellaneous | | | | | 166,650 | (204,122) | (37,472) |
| Total General Revenues | | | | | 12,307,921 | (62,427) | 12,245,494 |
| Change in Net Position | | | | | 2,728,379 | (382,273) | 2,346,106 |
| Net Position Beginning of Year | | | | | 24,535,893 | 33,303,177 | 57,839,070 |
| Beginning of year Changes in Accounting Principle (GASB 68) | | | | | (3,750,807) | (816,426) | (4,567,233) |
| Net Position End of Year | | | | | \$ 23,513,465 | \$ 32,104,478 | \$ 55,617,943 |

See accompanying notes to the basic financial statements

GW Stmt of Activities

Balance Sheet
Governmental Funds
December 31, 2015

| | # | Street | Capital | Other | Total |
|---|---------------------|-------------------|-------------------|-----------------------|-----------------------|
| | General | Construction | Improvements | Governmental Funds | Governmental Funds |
| Assets | | | | | |
| Cash and cash equivalents | \$ 217,928 | \$ 99,586 | \$ 240,007 | \$ 111,732 | \$ 669,253 |
| Investments | 605,752 | 279,219 | 672,932 | 324,699 | 1,882,602 |
| Receivables: | | | | | |
| Accounts | 162,149 | - | 4,026 | 2,790 | 168,965 |
| Taxes | 1,278,251 | 17,935 | - | 129,352 | 1,425,538 |
| Intergovernmental | 189,960 | 55,774 | - | 13,036 | 258,770 |
| Internal balances | 30,197 | - | - | - | 30,197 |
| Total Assets | \$ 2,484,237 | \$ 452,514 | \$ 916,965 | \$ 581,609 | \$ 4,435,325 |
| Liabilities | | | | | |
| Accounts payable | \$ 303,475 | \$ 314,680 | \$ 2,976 | \$ 21,603 | \$ 642,734 |
| Wages payable | 296,345 | \$ 7,448 | \$ 1,449 | \$ 10,501 | 315,743 |
| Intergovernmental payable | 261,354 | \$ 4 | 136 | 23 | 261,517 |
| Deposits payable | 41,234 | - | - | - | 41,234 |
| Total Liabilities | 902,408 | 322,132 | 4,561 | 32,127 | 1,261,228 |
| Deferred Inflow of Resources | | | | | |
| - Property Taxes | 100,046 | - | - | 5 | 100,051 |
| Total Liabilities and Deferred Inflow of Resources | 1,002,454 | 322,132 | 4,561 | 32,132 | 1,361,279 |
| Fund Balances | | | | | |
| Nonspendable | 30,197 | - | - | - | 30,197 |
| Restricted | - | 130,382 | 791,459 | 549,477 | 1,471,318 |
| Committed | 1,402,088 | - | - | - | 1,402,088 |
| Assigned | 49,498 | - | 120,945 | - | 170,443 |
| Unassigned | - | - | - | - | - |
| Total Fund Balances | 1,481,783 | 130,382 | 912,404 | 549,477 | 3,074,046 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 2,484,237 | \$ 452,514 | \$ 916,965 | \$ 581,609 | \$ 4,435,325 |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2015

| | | |
|--|---------------------|------------------------------|
| Total Governmental Fund Balances | \$ | 3,074,046 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets). | | |
| Cost of capital assets | \$ 53,119,526 | |
| Less accumulated depreciation | <u>(27,312,357)</u> | 25,807,169 |
| The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position. | | |
| Internal balances | | 666,005 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes. | | |
| | | 100,051 |
| Deferred Inflows and outflows for pensions reported on the government-wide statement of position but not reported on the governmental fund balance sheet. | | |
| | | (503,457) |
| The net pension assets are not available to retire current year expenditures, therefore they are not reported on the governmental fund balance sheet. | | |
| | | 1,480,221 |
| The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net position. | | |
| | | 2,856,354 |
| The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements. | | |
| | | 346,580 |
| Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position. | | |
| Limited tax general obligation bonds payable | \$ (1,250,000) | |
| General obligation refunding bonds payable | (845,000) | |
| Local loans payable | | |
| Public works board loan payable | (90,000) | |
| Other postemployment benefits payable | (3,418,375) | |
| Intergovernmental payable | | |
| Net Pension Liability Payable | (3,928,433) | |
| Compensated absences payable (excludes internal service fund) | <u>(781,696)</u> | (10,313,504) |
| Net Position Of Governmental Activities | \$ | <u>23,513,465</u> |
| See accompanying notes to the basic financial statements | | |

City of Mountlake Terrace, Washington
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2015

| | General | Street Construction | Capital Improvements | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------------|-------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 10,713,333 | \$ - | \$ - | \$ 1,365,916 | \$ 12,079,249 |
| Intergovernmental | 595,327 | 2,601,058 | 283,421 | 329,837 | 3,809,643 |
| Licenses and permits | 854,362 | - | - | - | 854,362 |
| Charges for services | 2,926,505 | 448,718 | 18,711 | 102,770 | 3,496,704 |
| Impact fees | - | - | - | - | - |
| Fines and forfeitures | 320,981 | - | - | - | 320,981 |
| Internal balances | 14,806 | 13,354 | 10,942 | 8,279 | 47,381 |
| Rent and leases | 191,917 | - | - | - | 191,917 |
| Miscellaneous | 179,367 | 43,490 | - | 271 | 223,128 |
| Total Revenues | 15,796,598 | 3,106,620 | 313,074 | 1,807,073 | 21,023,365 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 1,894,156 | - | 152,473 | - | 2,046,629 |
| Judicial | 824,847 | - | - | - | 824,847 |
| Public safety | 8,654,147 | - | 34,684 | - | 8,688,831 |
| Physical environment | 862,250 | - | - | - | 862,250 |
| Economic environment | 264,866 | - | - | 1,202 | 266,068 |
| Culture and recreation | 3,322,464 | - | 64,404 | 30,632 | 3,417,500 |
| Transportation | - | 135,615 | - | 905,650 | 1,041,265 |
| Capital Outlay | - | 4,589,819 | 412,529 | - | 5,002,348 |
| Debt Service: | | | | | |
| Principal retirement | - | - | - | 550,000 | 550,000 |
| Interest and fiscal charges | - | - | - | 80,487 | 80,487 |
| Total Expenditures | 15,822,730 | 4,725,434 | 664,090 | 1,567,971 | 22,780,225 |
| (Deficiency) of Revenues (Under) Expenditures | (26,132) | (1,618,814) | (351,016) | 239,102 | (1,756,860) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | - | 324,000 | 273,538 | 742,265 | 1,339,803 |
| Transfers out | (289,803) | - | - | (1,050,000) | (1,339,803) |
| Total Other Financing Sources (Uses) | (289,803) | 324,000 | 273,538 | (307,735) | - |
| Net Change in Fund Balances | (315,935) | (1,294,814) | (77,478) | (68,633) | (1,756,860) |
| Fund Balances Beginning of Year | 1,797,718 | 1,425,196 | 989,882 | 618,110 | 4,830,906 |
| Fund Balances End of Year | \$ 1,481,783 | \$ 130,382 | \$ 912,404 | \$ 549,477 | \$ 3,074,046 |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
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, 2015

| | | |
|--|---|----------------------------|
| Net Changes In Fund Balances - Total Governmental Funds | | \$ (1,756,860) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period. | | |
| | Depreciation expense | \$ (1,378,121) |
| | Capital outlay | 5,002,348 |
| | Capital Contributions | 309,547 |
| | Less amount of capital outlay not capitalized | <u>-</u> |
| | | 3,933,774 |
| Internal balances | | |
| The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement. | | |
| | | - |
| Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| | Property taxes: | |
| | Deferred @ 12/31/15 | \$ 100,051 |
| | Deferred @ 12/31/14 | <u>(110,739)</u> |
| | | (10,688) |
| Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity. | | |
| | | (43,905) |
| Elimination of transfers between governmental funds: | | |
| | Transfers in | \$ (1,339,803) |
| | Transfers out | <u>1,339,803</u> |
| | | - |
| The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. | | |
| | | (173,527) |
| The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements. | | |
| | | 95,303 |
| The issuance of long-term debt is reported as an other financing source at the fund financial reporting level but reclassified as a liability at the government-wide financial reporting level. | | |
| | | - |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position. | | |
| | | 550,000 |
| Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | (811,320) |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position. | | |
| | | 255,507 |
| Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet | | |
| | | 664,447 |
| Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | - |
| | Liability @ 12/31/15 | \$ (781,696) |
| | Liability @ 12/31/14 | <u>807,344</u> |
| | | 25,648 |
| Change In Net Position of Governmental Activities | | <u><u>\$ 2,728,379</u></u> |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Net Position
Proprietary Funds
December 31, 2015

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|---|--|----------------------|---------------------------|----------------------|--|
| | Sewer Utility | Water Utility | Storm Water Utility | Total | |
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 607,137 | \$ 269,141 | \$ 160,341 | \$ 1,036,619 | \$ 169,679 |
| Investments | 1,916,511 | 711,464 | 365,972 | 2,993,947 | 477,352 |
| Receivables: | | | | | |
| Internal balances | 368,238 | 350,979 | 231,440 | 950,657 | - |
| Intergovernmental | - | - | 13,965 | 13,965 | 20,344 |
| Total Current Assets | 2,891,886 | 1,331,584 | 771,718 | 4,995,188 | 667,375 |
| Noncurrent Assets: | | | | | |
| Restricted assets: cash and cash equivalents | 76,404 | 585,062 | 596,384 | 1,257,850 | - |
| Restricted assets: investments | - | 2,343,049 | 1,755,731 | 4,098,780 | - |
| Capital assets: | | | | | |
| Nondepreciable | 644,270 | 1,067,763 | 850,005 | 2,562,038 | 200,989 |
| Depreciable, net | 7,682,640 | 19,663,109 | 10,968,291 | 38,314,040 | 2,154,151 |
| Total Noncurrent Assets | 8,403,314 | 23,658,983 | 14,170,411 | 46,232,708 | 2,355,140 |
| Deferred Outflow of Resources | 19,871 | 32,688 | 26,264 | 78,823 | 13,004 |
| Total Assets and Deferred Outflow of Resources | 11,315,071 | 25,023,255 | 14,968,393 | 51,306,719 | 3,035,519 |
| Liabilities | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 348,394 | 178,791 | 12,392 | 539,577 | 18,109 |
| Wages and benefits payable | 17,489 | 17,560 | 13,849 | 48,898 | 6,635 |
| Compensated absences payable | 5,008 | 9,734 | 5,937 | 20,679 | 3,590 |
| Intergovernmental payable | 7,421 | 13,342 | 2,723 | 23,486 | - |
| Public works trust fund loan payable | - | 98,984 | - | 98,984 | - |
| Revenue bonds payable | 42,517 | 318,376 | 339,107 | 700,000 | - |
| Total Current Liabilities | 420,829 | 636,787 | 374,008 | 1,431,624 | 28,334 |
| Long-Term Liabilities: (net of current portion) | | | | | |
| Public works trust fund loan payable | - | 577,300 | - | 577,300 | - |
| Revenue bonds payable | 835,650 | 7,499,604 | 7,601,533 | 15,936,787 | - |
| Compensated absences payable | 20,033 | 38,935 | 23,750 | 82,718 | 14,358 |
| Net pension liability | 176,965 | 291,104 | 233,894 | 701,963 | 115,807 |
| Total Long-term Liabilities | 1,032,648 | 8,406,943 | 7,859,177 | 17,298,768 | 130,165 |
| Deferred Inflow of Resources | 31,580 | 51,949 | 41,740 | 125,269 | 20,666 |
| Total Liabilities and Deferred Inflow of Resources | 1,485,057 | 9,095,679 | 8,274,925 | 19,307,692 | 179,165 |
| Net Position | | | | | |
| Net investment in capital assets | 7,448,743 | 14,579,657 | 5,640,549 | 27,668,949 | 2,355,140 |
| Restricted for debt service | 76,404 | 585,062 | 596,384 | 1,257,850 | - |
| Unrestricted | 2,304,867 | 762,857 | 456,535 | 3,524,260 | 501,214 |
| Total Net Position | \$ 9,830,014 | \$ 15,927,576 | \$ 6,693,468 | 32,451,058 | \$ 2,856,354 |
| Reconciliation of the fund level statement of net position to the government-wide statement of net position: | | | | | |
| Record internal service fund charge-back to enterprise funds resulting in an interfund receivable to governmental activities. | | | | (346,580) | |
| Adjusted Total Net Position | | | | \$ 32,104,478 | |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2015

| | Business-type Activities - Enterprise Funds | | | Total | Governmental Activities - Internal Service Fund |
|---|--|----------------------|---------------------------|----------------------|--|
| | Sewer Utility | Water Utility | Storm Water Utility | | |
| Operating Revenues | | | | | |
| Charges for services | \$ 3,521,644 | \$ 3,154,775 | \$ 1,766,583 | \$ 8,443,002 | \$ 628,326 |
| Operating Expenses | | | | | |
| Internal balances | 2,950,557 | 2,834,198 | 1,226,447 | 7,011,202 | 471,031 |
| Depreciation | 280,058 | 633,250 | 340,717 | 1,254,025 | 356,151 |
| Total Operating Expenses | <u>3,230,615</u> | <u>3,467,448</u> | <u>1,567,164</u> | <u>8,265,227</u> | <u>827,182</u> |
| Operating Income (Loss) | <u>291,029</u> | <u>(312,673)</u> | <u>199,419</u> | <u>177,775</u> | <u>(198,856)</u> |
| Non-Operating Revenues (Expenses) | | | | | |
| Interest and fiscal charges | (34,433) | (264,011) | (257,190) | (555,634) | - |
| Gain on disposition of capital assets | - | 3,000 | - | 3,000 | 25,329 |
| Investment earnings | 25,860 | 70,059 | 42,776 | 138,695 | - |
| Miscellaneous revenue | 2,147 | (224,135) | 17,866 | (204,122) | - |
| Total Non-Operating Revenues (Expenses) | <u>(6,426)</u> | <u>(415,087)</u> | <u>(196,548)</u> | <u>(618,061)</u> | <u>25,329</u> |
| Income (Loss) Before Contributions | 284,603 | (727,760) | 2,871 | (440,286) | (173,527) |
| Contributions | 15,900 | 73,506 | 63,910 | 153,316 | - |
| Change in Net Position | 300,503 | (654,254) | 66,781 | (286,970) | (173,527) |
| Net Position Beginning of Year | 9,735,332 | 16,920,402 | 6,898,720 | 33,554,454 | 3,164,572 |
| Restatement of Beginning Net Position | (205,821) | (338,572) | (272,033) | (816,426) | (134,691) |
| Net Position Beginning of Year as Restated | <u>9,529,511</u> | <u>16,581,830</u> | <u>6,626,687</u> | <u>32,738,028</u> | <u>3,029,881</u> |
| Net Position End of Year | <u>\$ 9,830,014</u> | <u>\$ 15,927,576</u> | <u>\$ 6,693,468</u> | <u>\$ 32,451,058</u> | <u>\$ 2,856,354</u> |
| Reconciliation of the fund level operating statement to the government-wide statement of activities: | | | | | |
| Change in net position | \$ 300,503 | \$ (654,254) | \$ 66,781 | \$ (286,970) | |
| Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses. | (23,864) | (29,766) | (41,673) | (95,303) | |
| Adjusted Change in Net Position | <u>\$ 276,639</u> | <u>\$ (684,020)</u> | <u>\$ 25,108</u> | <u>\$ (382,273)</u> | |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

| | Business-type Activities - Enterprise Funds | | | Total | Governmental Activities - Internal Service Fund |
|--|--|--------------------|---------------------------|---------------------|--|
| | Sewer Utility | Water Utility | Storm Water Utility | | |
| Increase (Decrease) in Cash and Cash Equivalents | | | | | |
| Cash Flows from Operating Activities | | | | | |
| Cash received from customers | \$ 3,681,077 | \$ 3,191,743 | \$ 1,867,612 | \$ 8,740,432 | \$ 50,127 |
| Internal balances | - | - | - | - | 560,139 |
| Cash payments to employees for services | (495,798) | (614,353) | (467,541) | (1,577,692) | (206,632) |
| Cash payments for goods and services | (2,083,799) | (2,018,502) | (739,107) | (4,841,408) | (237,701) |
| Net Cash Provided by (Used in) Operating Activities | <u>1,101,480</u> | <u>558,888</u> | <u>660,964</u> | <u>2,321,332</u> | <u>165,933</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Proceeds from disposition of capital assets | - | 3,000 | - | 3,000 | 34,342 |
| Proceeds from revenue bonds | - | - | - | - | - |
| Principal paid on revenue bonds | (41,650) | (302,147) | (326,203) | (670,000) | - |
| Interest paid on revenue bonds | (34,424) | (260,401) | (257,120) | (551,945) | - |
| Bond issue costs paid on revenue bonds | (9) | (57) | (70) | (136) | - |
| Principal paid on public works trust fund loan | - | (98,984) | - | (98,984) | - |
| Interest paid on public trust fund loan | - | (3,553) | - | (3,553) | - |
| Payments for capital acquisitions | (489,767) | (1,850,386) | (582,662) | (2,922,815) | (102,892) |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | <u>(565,850)</u> | <u>(2,512,528)</u> | <u>(1,166,055)</u> | <u>(4,244,433)</u> | <u>(68,550)</u> |
| Cash Flows from Investing Activities | | | | | |
| Purchase of investment securities | (1,012,792) | (1,614,176) | (1,121,227) | (3,748,195) | - |
| Proceeds from sale and maturities of investment securities | 319,047 | 2,461,934 | 1,299,782 | 4,080,763 | (251,411) |
| Investment earnings | 21,682 | 46,459 | 29,975 | 98,116 | 107,710 |
| Net Cash Provided by (Used in) Investing Activities | <u>(672,063)</u> | <u>894,217</u> | <u>208,530</u> | <u>430,684</u> | <u>(143,701)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(136,433)</u> | <u>(1,059,423)</u> | <u>(296,561)</u> | <u>(1,492,417)</u> | <u>(46,318)</u> |
| Cash and Cash Equivalents Beginning of Year | <u>837,121</u> | <u>1,941,833</u> | <u>1,075,949</u> | <u>3,854,903</u> | <u>227,219</u> |
| Cash and Cash Equivalents End of Year | <u>\$ 700,688</u> | <u>\$ 882,410</u> | <u>\$ 779,388</u> | <u>\$ 2,362,486</u> | <u>\$ 180,901</u> |

(Continued)

City of Mountlake Terrace, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2015

(Continued)

| | Business-type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|--|--|-------------------|---------------------------|---------------------|--|
| | Sewer Utility | Water Utility | Storm Water Utility | Total | |
| Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities | | | | | |
| Operating Income (Loss) | \$ 291,029 | \$ (312,673) | \$ 199,419 | \$ 177,775 | \$ (198,856) |
| Internal balances | | | | | |
| Depreciation | 280,058 | 633,250 | 340,717 | 1,254,025 | 356,151 |
| (Increase) Decrease in Assets: | | | | | |
| Accounts receivable | 159,433 | 36,968 | 87,394 | 283,795 | - |
| Intergovernmental receivable | - | - | 13,635 | 13,635 | (18,060) |
| Increase (Decrease) in Liabilities: | | | | | |
| Accounts payable | 348,394 | 178,791 | 12,392 | 539,577 | - |
| Intergovernmental payable | 639 | (597) | 93 | 135 | 17,582 |
| Compensated absences payable | 21,927 | 23,149 | 7,314 | 52,390 | 9,116 |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ 1,101,480</u> | <u>\$ 558,888</u> | <u>\$ 660,964</u> | <u>\$ 2,321,332</u> | <u>\$ 165,933</u> |
| Schedule of Non-Cash Capital and Related Financing Activities | | | | | |
| Capital assets contributed by private developers | \$ 15,900 | \$ 73,506 | \$ 63,910 | \$ 153,316 | \$ - |
| Increase (decrease) in fair value of investments | 4,178 | 23,600 | 12,801 | 40,579 | - |
| Total Non-Cash Activities | <u>\$ 20,078</u> | <u>\$ 97,106</u> | <u>\$ 76,711</u> | <u>\$ 193,895</u> | <u>\$ -</u> |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2015

| | Pension Trust | Agency |
|------------------------------------|--------------------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,033 | \$ 1,816,569 |
| Investments | - | 3,000,001 |
| Total Assets | 1,033 | \$ 4,816,570 |
| Liabilities | | |
| Deposits payable | - | 550,922 |
| Internal balances | | 66,784 |
| Intergovernmental payable | - | 4,198,864 |
| Total Liabilities | - | \$ 4,816,570 |
| Net Position | | |
| Held in trust for pension benefits | \$ 1,033 | |

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Comparative Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Firemen's Pension Trust Fund
For the Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---------------------------------------|----------|----------|
| Net Position Beginning of Year | \$ 1,033 | \$ 1,033 |
| Net Position End of Year | \$ 1,033 | \$ 1,033 |

See accompanying notes to the basic financial statements

Internal balances

The City of Mountlake Terrace, Washington (the City) was incorporated November 29, 1954, under the provision of Chapter 35A RCW as amended. The City operates under a Council - Manager form of government and provides the following services: public safety (police and fire protection), public works (streets, sanitation, and utilities), culture, recreation, and library services, planning and zoning, and general administrative services.

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The most significant of the City's accounting policies are described below.

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this entity includes one component units as described below.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organizations; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units also may include organizations that are fiscally dependent on the City in that the City approves the budget, levies their taxes or issues their debt.

The City's component unit is presented as "blended." It is reported as if it were a fund of the City throughout the year. It is included at both the government-wide and fund financial reporting levels.

A brief description of the blended component unit follows:

Mountlake Terrace Transportation Benefit District (TBD) - The TBD was established by the City Council by adopting Ordinance No. 2584, as authorized by RCW 35.21.255 and subject to the provision of Chapter 36.73 RCW on December 5, 2011. The City Council serves as the board of directors of the TBD, and they elect a Chairperson and Vice Chairperson of the TBD Board of Directors. The City's City Manager serves as the TBD's Executive Director, the City's Finance Director serves as the TBD's Treasurer, and the City's City Clerk serves as the TBD's Secretary.

The TBD Board of Director's authorized levying a \$20 vehicle license fee for City residents effective July 3, 2012, on January 3, 2012. The proceeds of the \$20 vehicle license fee will be applied to the City's transportation improvements that preserve, maintain, operate, construct or reconstruct the existing transportation infrastructure of the City.

Although the TBD is legally separated from the City, the TBD is reported as if it were part of the primary government because its sole purpose is to finance the City's transportation improvements.

1-B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Fiduciary activities are not included at the government-wide financial reporting level. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and grants and City's general revenues, from business-type activities, generally financed in whole or in part with user fees charged to external customers.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of net position presents the financial position of the governmental and business-type activities of the City.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each identifiable activity of the business-type activities of the City. Direct expenses are those that are specifically associated with a function and therefore clearly identifiable to that particular function. The City does not allocate indirect expenses to functions in the statement of activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. For identifying to which function program revenue pertains, the determining factor for *charges for services* is which function *generates* the revenue. For *grants and contributions*, the determining factor is to which function the revenues are *restricted*.

Other revenue sources not properly included with program revenues are reported as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and each identifiable business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Major individual governmental and enterprise funds are reported in separate columns.

Fund Accounting - The City uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The City uses three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Government funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

The General Fund – The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund's fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of the State of Washington.

Street Construction Fund – This fund is a major special revenue fund that accounts for financial resources to be used for projects that provide, preserve and improve street, pedestrian and traffic control facilities. Revenues reported in this fund include state and local grants, a share of the State's motor vehicle fuel taxes, reimbursements from other cities for street construction on joint projects, and traffic impact fees.

Capital Improvements Fund – This is a capital projects fund that accounts for the financial resources and expenditures for all governmental capital improvement expenditures and projects.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The proprietary funds are classified as enterprise funds and an internal service fund. The following are the City's major enterprise funds:

Sewer Utility Fund – This fund accounts for the activities of providing sewer services to its citizens.

Water Utility Fund – This fund accounts for the activities of providing water services to its citizens.

Note 1 - Summary of Significant Accounting Policies (Continued)

Storm Water Utility Fund – This fund accounts for the activities of providing storm water services to its citizens.

Internal Service Fund – Fleet Management Fund - This fund accounts for fleet maintenance services provided to other departments of the city on a cost reimbursement basis.

Fiduciary Fund – Firefighters’ Pension Trust Fund - The City’s fiduciary funds include a pension trust fund for excess pension payments to qualified fire fighters and four agency funds, the private suspense fund, public suspense fund, the investment clearing fund and the benefit clearing account. Pension trust fund reporting focuses on net position.

1-C. Measurement Focus, Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues and expenses. The government-wide financial statements do not include the fiduciary fund types.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

Like the government-wide statements, all proprietary fund types and the pension trust fund are accounted for on a flow of economic resources measurement focus on both financial reporting levels. All assets, deferred outflow of resources, liabilities and deferred inflow of resources associated with the operation of these funds are included on the statements of net position. The statements of changes in fund net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, the governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting at both reporting levels. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

Revenues - Non-exchange Transactions - Non-exchange transactions in which the City receives value without directly giving equal value in return, include sales taxes, property taxes, grants and donations. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (Note 3-C) Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Note 1 - Summary of Significant Accounting Policies (Continued)

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: property taxes, and federal and state grants.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

New Accounting Standards – In 2015, the City implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”. And also GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB Statement No. 68”. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

1-D. Budgetary Information

Scope of Budget

Annual appropriated budgets are adopted for all operating funds on the GAAP basis of accounting. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for annually adopted governmental funds only.

Annually appropriated budgets are adopted at the fund level where expenditures may not exceed appropriations. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for all funds lapse at year-end.

Amending the Budget

The City Manager or Finance Director may approve budget transfers between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by a simple majority. The budget was amended by ordinance two (2) times during 2015. The budget amounts shown in the financial statements and schedules 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 is the original budget adjusted by all reserves, transfer, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

1-E. Assets, Liabilities and Net Position/Fund Balances

1-E-1 Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments are stated at fair value based on quoted market prices.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City is empowered to invest in the following types of securities identified as eligible investments as defined by RCW 35A.40.050 and RCW 43.84.080. In general, these consist of:

- Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.
- Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States whose securities carry full faith and credit guarantees.
- Obligations of government sponsored corporations, which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. (These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Associates notes.)
- Prime bankers acceptances purchased on the secondary market.
- Repurchase agreements for securities listed above, provided that the transaction is structured so that the City obtains ownership and control over the underlying securities. A Master repurchase agreement between the City and the bank or dealer must be on file prior to any repurchase agreement transaction.
- The Washington Local Government Investment Pool

Interest earnings are allocated to each fund monthly, based on average pooled equity balances.

1-E-2 Receivables

All trade and tax receivables are reported net of an allowance for uncollectibles, where applicable. Taxes receivable consists of property taxes, sales tax, utility taxes, gambling taxes, liquor excise tax and state shared program revenues.

1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/interfund payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

1-E-4 Inventories

On the government-wide financial statements and at the fund financial reporting level, inventories are presented at cost using the weighted average cost method and are expensed when used (i.e., the consumption method).

1-E-5 Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column of the government-wide statement of net position but does not report these assets in the Government fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars and an estimated three year life. Improvements to capital assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets utilized by enterprise funds is capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

Note 1 - Summary of Significant Accounting Policies (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

| Asset Class | Estimated Lives | |
|-------------------------|-------------------------|--------------------------|
| | Governmental Activities | Business-type Activities |
| Buildings | 40 - 50 Years | 40 - 50 Years |
| Improvements | 20 - 30 Years | 20 - 30 Years |
| Machinery and equipment | 5 - 10 Years | 5 - 10 Years |
| Infrastructure | 7 - 75 Years | 18.5 - 75 Years |

At the inception of capital leases at the governmental fund reporting level, expenditures and an “other financing source” of an equal amount are reported at the net present value of future minimum lease payments.

1-E-6 Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the City's past experience of making termination payments. Upon termination of employment, employees receive 25% of accumulated sick leave.

Earned compensatory time is accrued at December 31, 2015. All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only “when matured (i.e., due).”

1-E-7 Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

1-E-7 Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are “due for payment” during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due.

Note 1 - Summary of Significant Accounting Policies (Continued)

1-E-8 Bond Premiums, Discounts and Issuance Costs

On the government-wide statement of net position and the proprietary fund type statement of net position, debt premiums and discounts are netted against the debt payable. On the government-wide and proprietary fund type statement of activities, debt premiums and discounts, are deferred and amortized over the life of the using the effective interest method.

Bond issuance costs are recognized as an outflow of resources in the reporting period in which they are incurred.

1-E-9 Fund Balance Classification

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

Fund Balance – Fund Balance – Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

- **Nonspendable** – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.
- **Restricted** – Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- **Committed** – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council through the approval of a motion. Only, the City Council also may modify or rescind the commitment.
- **Assigned** – Fund balances are reported as assigned when amounts are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Through resolution, the City Council has authorized the City manager or designee to assign fund balances.
- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

Net Position Flow Assumptions – In order to report net position as a restricted – net position and an unrestricted – net position in the government-wide and proprietary fund financial statements, the City has established a flow assumption policy. It is the City’s policy to use restricted – net position first before using unrestricted – net position.

Fund Balance Flow Assumptions – It is the City’s policy to consider restricted fund balance to have been used before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, it is the City’s policy to use fund balance in the following order:

- Committed
- Assigned
- Unassigned

Fund Balance Policy – On August 21, 2006, the City Council adopted this policy by motion. The policy as adopted follows:

“The City will maintain a minimum undesignated general fund balance equal to 5% of general fund expenditures. In the event the undesignated general fund balance is used to provide for temporary funding of unforeseen emergency needs, the City will restore the undesignated general fund balance to the minimum of 5% within two years.”

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position – The net position represents the difference between total assets and deferred outflow of resources and total liabilities and deferred inflow of resources. The net position component, “net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the City has not spent) for the acquisition, construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The balance of the net position is reported as unrestricted.

1-E-10 Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in consistent with a proprietary fund’s principal ongoing operations. The principal operating revenues of the city’s utility funds and internal service funds are charges to customers for sales and services and vehicle replacement. The City also recognizes as operating revenue the portion of utility connection fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, taxes, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues (i.e., investment earnings, operating grants and the gain on the disposition of capital assets) and non-operating expenses (i.e., interest expense).

1-E-11 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and the after non-operating revenues/expenses section in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements (i.e., they are netted).

Transfers between governmental and business-type activities on the government-wide statement of activities are reported as general revenues. Transfers between funds reported in the governmental activities column are eliminated. Transfers between funds reported in the business type activities column are eliminated.

1-E-12 Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1-E-13 Comparative Data

Comparative total data for the prior year have been presented only for individual funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year’s presentation.

Note 2 – Stewardship, Compliance and Accountability

2-A. Budgetary Information – The City adopts biennial budgets for all governmental funds.

The legal level of control (the level at which expenditures may not legally exceed appropriations) for each adopted annual operating budget generally is the individual fund level. Any change in total to a fund requires approval of the City Council.

The City Manager or Finance Director may approve budget transfers between departments within a fund.

All budgets are adopted on a GAAP basis (i.e., modified accrual basis) All unexpended annual appropriations lapse at year-end.

Note 3 - Detailed Notes on All Funds

3A. Deposits and Investments

Deposits

The City’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Deposit Protection Commission (PDPC).

Investments

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than eight years.

At December 31, 2015, the City held the following investments:

| Investment Type | Fair Value | Weighted Average Maturity - Years |
|---------------------------------------|---------------------|---|
| Federal Farm Credit Bank | \$ 1,000,098 | 4.4 |
| FICO Strip | 2,995,800 | 3.3 |
| Federal National Mortgage Association | <u>5,456,783</u> | 3 |
| Total | <u>\$ 9,452,681</u> | |

Credit Quality Risk –Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of debt securities as of December 31, 2015 are:

| Debt Security | S & P Rating |
|---------------------------------------|--------------------------------|
| Federal Farm Credit Bank | AA+ |
| FICO Strip | Non-Rated US Government Agency |
| Federal National Mortgage Association | AA+ |

Custodial Credit Risk - Investments – For investments, custodial credit risk is the risk that, in the event of a bank failure, the City’s investments may not be recovered. All City securities are held for safekeeping by US Bank, as the City’s agent, in the City’s name.

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of the City’s investment in a single issuer. Currently, the City does not have an investment policy relating to concentration of credit risk.

The City’s investments in the Federal Farm Credit Bank and the Federal National Mortgage Association (Fannie Mae), government-sponsored enterprises, which are not explicitly backed by the federal government, are 58% and 11% of the City’s total investment portfolio market value, respectively.

Note 3 - Detailed Notes on All Funds (Continued)

Cash & Investment Reconciliation:

| Fund Reporting Level: | Pooled Cash and Cash Equivalents | Investments | Total |
|--|--|--------------------------|-----------------------------|
| Governmental Fund Type - Balance Sheet | \$ 669,253 | \$ 1,882,602 | \$ 2,551,855 |
| Proprietary Fund Type Statement of Net Position: | | | |
| Enterprise Funds | 2,294,469 | 7,092,727 | 9,387,196 |
| Internal Service Funds | 169,679 | 477,352 | 647,031 |
| Statement of Fiduciary Net Position | <u>1,817,602</u> | <u>3,000,001</u> | <u>4,817,603</u> |
| Total | <u>\$ 4,951,003</u> | <u>12,452,682</u> | <u>\$ 17,403,685</u> |
| Cash | | | \$ 4,951,003 |
| Investments | | | <u>12,452,682</u> |
| Total | | | <u>\$ 17,403,685</u> |

3B. Receivables

Receivables and payables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

3C. Property Taxes

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed to the City monthly. The following is the property tax calendar:

| | |
|-------------|--|
| January 1 | Property 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. |

Note 3 - Detailed Notes on All Funds (Continued)

3-D. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

| Governmental Activities: (including Internal Service fund): | Beginning Balance 1/1/2015 | Increases | Decreases | Ending Balance 12/31/2015 |
|---|----------------------------------|--------------|------------|---------------------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 1,538,605 | \$ 316,398 | \$ - | \$ 1,855,003 |
| Construction in progress | 2,805,166 | 931,260 | 941,918 | 2,794,508 |
| Total nondepreciable capital assets | 4,343,771 | 1,247,658 | 941,918 | 4,649,511 |
| Depreciable capital assets | | | | |
| Buildings | 13,197,507 | 144,460 | - | 13,341,967 |
| Improvements other than buildings | 1,545,086 | - | - | 1,545,086 |
| Machinery and equipment | 5,873,855 | 154,118 | 99,729 | 5,928,244 |
| Infrastructure | 27,241,215 | 4,806,479 | - | 32,047,694 |
| Total depreciable capital assets | 47,857,663 | 5,105,057 | 99,729 | 52,862,991 |
| Total capital assets | 52,201,434 | 6,352,715 | 1,041,647 | 57,512,502 |
| Less accumulated depreciation for: | | | | |
| Buildings | 8,264,977 | 271,497 | - | 8,536,474 |
| Improvements other than buildings | 1,163,258 | 39,210 | - | 1,202,468 |
| Machinery and equipment | 3,278,182 | 424,456 | 90,716 | 3,611,922 |
| Infrastructure | 15,004,209 | 999,109 | - | 16,003,318 |
| Total accumulated depreciation | 27,710,626 | 1,734,272 | 90,716 | 29,354,182 |
| Governmental activities capital assets, net | \$ 24,490,808 | \$ 4,618,443 | \$ 950,931 | \$ 28,158,320 |

Note 3 - Detailed Notes on All Funds (Continued)

| Business-Type Activities: | Beginning | Increases | Decreases | Ending |
|---|----------------------|---------------------|-------------------|----------------------|
| | Balance | | | Balance |
| | 1/1/2015 | | | 12/31/2015 |
| Nondepreciable capital assets: | | | | |
| Land | \$ 2,128,469 | \$ - | \$ - | \$ 2,128,469 |
| Construction in progress | 393,307 | 211,659 | 171,397 | 433,569 |
| Total nondepreciable capital assets | 2,521,776 | 211,659 | 171,397 | 2,562,038 |
| Depreciable capital assets: | | | | |
| Buildings | 2,744,174 | - | - | 2,744,174 |
| Improvements other than buildings | 21,168 | - | - | 21,168 |
| Machinery and equipment | 607,379 | - | 21,291 | 586,088 |
| Infrastructure | 48,376,300 | 2,351,900 | - | 50,728,200 |
| Intangibles | 3,011,158 | 448,751 | - | 3,459,909 |
| Total depreciable capital assets | 54,760,179 | 2,800,651 | 21,291 | 57,539,539 |
| Total capital assets | 57,281,955 | 3,012,310 | 192,688 | 60,101,577 |
| Less accumulated depreciation for: | | | | |
| Buildings | 911,065 | 85,579 | - | 996,644 |
| Improvements other than buildings | 19,728 | 250 | - | 19,978 |
| Machinery and equipment | 393,359 | 47,099 | 21,291 | 419,167 |
| Infrastructure | 15,687,139 | 1,029,849 | - | 16,716,988 |
| Intangibles | 981,475 | 91,247 | - | 1,072,722 |
| Total accumulated depreciation | 17,992,766 | 1,254,024 | 21,291 | 19,225,499 |
| Business-type activities capital assets, net | \$ 39,289,189 | \$ 1,758,286 | \$ 171,397 | \$ 40,876,078 |

Depreciation Expense by Function:

| Governmental Activities | |
|--|---------------------|
| General Government | \$ 41,161 |
| Public Safety | 209,168 |
| Physical Environment | 228,144 |
| Transportation | 1,008,015 |
| Economic Environment | 15,666 |
| Culture and Recreation | 232,118 |
| Total Depreciation Expense - Governmental Activities | \$ 1,734,272 |
| Business-type Activities | |
| Sewer | \$ 280,058 |
| Water | 633,250 |
| Storm Water | 340,716 |
| Total Depreciation Expense - Business-Type Activities | \$ 1,254,024 |

Note 3 - Detailed Notes on All Funds (Continued)

3-E. - Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of the following:

| Transfers to | Transfers from: | | |
|-----------------------------|-------------------|-----------------------------|---------------------|
| | General Fund | Nonmajor Governmental Funds | Total |
| Street Construction Fund | \$ - | \$ 324,000 | 324,000 |
| Capital Improvements Fund | 273,538 | - | 273,538 |
| Nonmajor Governmental Funds | 16,265 | 726,000 | 742,265 |
| Total | \$ 289,803 | \$ 1,050,000 | \$ 1,339,803 |

Transfers are used to report revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

Generally, all City transfers either occur on a regular basis or are consistent with the purpose of the fund making the transfer.

3-F. Long-Term Debt

This City issues general obligation bonds and revenue bonds to finance the acquisition and construction of capital facilities. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The City's long-term debt is not subject to arbitrage as the general obligation bond issues were under the arbitrage exclusion limit of \$5,000,000, and the revenue bond proceeds will be expended within two years of receipt.

Governmental Activities General Obligation Bonds

The City has two outstanding general obligation bonds, as follows:

| Bond Issue | Purpose | Range | Rate | Amount |
|------------------------------|-------------------------------|-------------|-------|--------------|
| 2013A Refunding Bonds | Refinance 1993A & 2001 Bonds | 2013 - 2022 | 2.08% | \$ 1,490,000 |
| 2013B Gen'l Obligation Bonds | Refinance BAN Short Term Debt | 2014 - 2020 | 3.70% | 1,680,000 |

Annual debt service requirements to amortize general obligations bonds outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Total |
|--------------|---------------------|-------------------|---------------------|
| 2016 | 410,000 | 63,826 | 473,826 |
| 2017 | 370,000 | 51,572 | 421,572 |
| 2018 | 355,000 | 39,988 | 394,988 |
| 2019 | 365,000 | 28,554 | 393,554 |
| 2020 | 375,000 | 16,750 | 391,750 |
| 2021-2022 | 220,000 | 6,864 | 226,864 |
| Total | \$ 2,095,000 | \$ 207,554 | \$ 2,302,554 |

Note 3 - Detailed Notes on All Funds (Continued)

Public Works Trust Fund Loan – The City received a loan from the State of Washington Public Works Trust Board for the engineering design work on the Gateway Boulevard Project in the amount of \$120,000. This loan is due in annual installments of \$30,000 per year plus interest beginning in 2015 through June 1, 2018, with an interest rate of 1.0%.

Annual debt service requirements to amortize the local loan outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Total |
|-------|-----------|----------|-----------|
| 2016 | 30,000 | 900 | 30,900 |
| 2017 | 30,000 | 600 | 30,600 |
| 2018 | 30,000 | 300 | 30,300 |
| Total | \$ 90,000 | \$ 1,800 | \$ 91,800 |

Public Works Trust Fund Loan – The City received a loan from the State of Washington Public Works Trust Board for the engineering design work and construction of a 2.13 million gallon water reservoir and are outstanding as follows:

| Bond Issue | Bond Purpose | Maturity Range | Interest Rate | Original Issue Amount |
|------------------------------|---------------------------------|----------------|---------------|-----------------------|
| Public Works Trust Loan Fund | Preconstruction Water Reservoir | 2002 - 2021 | 0.5% | \$ 248,625 |
| Public Works Trust Loan Fund | Construction Water Reservoir | 2003 - 2022 | 0.5% | 1,458,000 |

Annual debt service requirements to amortize the public works trust fund loan outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Total |
|-----------|------------|-----------|------------|
| 2016 | 98,984 | 3,381 | 102,365 |
| 2017 | 98,984 | 2,935 | 101,919 |
| 2018 | 98,984 | 2,392 | 101,376 |
| 2019 | 98,984 | 1,897 | 100,881 |
| 2020 | 98,984 | 1,402 | 100,386 |
| 2021-2022 | 181,365 | 1,319 | 182,684 |
| Total | \$ 676,285 | \$ 13,325 | \$ 689,610 |

Business-type Activities – Revenue Bonds – The City has three outstanding revenue bond issues and are outstanding as follows:

Water and Sewer Revenue Bonds, Series 2010 – On August 30, 2010, the City issued \$6,280,000 of revenue bonds with a premium of \$257,596 at an average coupon interest rate of 3.475%. The bonds mature on December 1, 2030. The purpose of this issue is for utility capital improvements, including a public works shop building.

Note 3 - Detailed Notes on All Funds (Continued)

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Premium | Total |
|--------------|---------------------|---------------------|-------------------|---------------------|
| 2016 | 255,000 | 201,625 | 12,880 | 469,505 |
| 2017 | 265,000 | 191,425 | 12,880 | 469,305 |
| 2018 | 275,000 | 180,825 | 12,880 | 468,705 |
| 2019 | 285,000 | 169,825 | 12,880 | 467,705 |
| 2020 | 300,000 | 158,425 | 12,880 | 471,305 |
| 2021-2025 | 1,670,000 | 609,025 | 64,399 | 2,343,424 |
| 2026-2030 | 2,030,000 | 250,000 | 60,105 | 2,340,105 |
| Total | \$ 5,080,000 | \$ 1,761,150 | \$ 188,904 | \$ 7,030,054 |

Water and Sewer Revenue Bonds, Series 2012 – On October 31, 2012 the City issued \$5,145,000 of revenue bonds with a premium of \$364,263 at an average coupon interest rate of 2.75%. The bonds mature on December 1, 2032. The purpose of this issue is for utility capital improvements, including replacing all water meters with automated meters, and detention and water quality projects.

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Premium | Total |
|--------------|---------------------|---------------------|-------------------|---------------------|
| 2016 | 215,000 | 131,900 | 18,213 | 365,113 |
| 2017 | 215,000 | 127,600 | 18,213 | 360,813 |
| 2018 | 220,000 | 123,300 | 18,213 | 361,513 |
| 2019 | 230,000 | 116,700 | 18,213 | 364,913 |
| 2020 | 235,000 | 109,800 | 18,213 | 363,013 |
| 2021-2025 | 1,280,000 | 439,200 | 91,066 | 1,810,266 |
| 2026-2030 | 1,485,000 | 235,200 | 91,066 | 1,811,266 |
| 2031-2032 | 660,000 | 29,850 | 33,391 | 723,241 |
| Total | \$ 4,540,000 | \$ 1,313,550 | \$ 306,588 | \$ 6,160,138 |

Water and Sewer Revenue Bonds, Series 2014 - On December 30, 2014 the City issued \$6,220,000 of revenue bonds with a premium of \$511,296 at coupon interest rates ranging from 2% to 4%, with a true interest cost of 3.077%. The bonds mature on December 1, 2034. The purpose of this issue is for utility capital improvements, including water main improvements and storm lines.

Note 3 - Detailed Notes on All Funds (Continued)

As of December 31, 2015 there is unamortized premium of \$511,296 remaining on the Series 2014 debt. Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2015 follow:

| Year | Principal | Interest | Premium | Total |
|-----------|---------------------|---------------------|-------------------|---------------------|
| 2016 | 230,000 | 223,350 | 51,130 | 504,480 |
| 2017 | 235,000 | 218,750 | 25,565 | 479,315 |
| 2018 | 240,000 | 211,700 | 25,565 | 477,265 |
| 2019 | 250,000 | 204,500 | 25,565 | 480,065 |
| 2020 | 255,000 | 197,000 | 25,565 | 477,565 |
| 2021-2025 | 1,420,000 | 847,950 | 127,824 | 2,395,774 |
| 2026-2030 | 1,730,000 | 543,200 | 127,824 | 2,401,024 |
| 2031-2034 | 1,650,000 | 168,000 | 102,258 | 1,920,258 |
| Total | <u>\$ 6,010,000</u> | <u>\$ 2,614,450</u> | <u>\$ 511,296</u> | <u>\$ 9,135,746</u> |

Other Outstanding Debt – Compensated Absences - Accumulated vacation time shall not exceed 40 working days per employee at the beginning of any new fiscal year. Sick leave can accumulate from year to year. Accrued amounts are based on the vested portion, which is determined by termination provisions. Upon termination of employment, compensation provisions provide a benefit to the employee at the rate of 25% of accumulated sick leave.

The recorded accruals for compensated absences are as follows:

| | |
|-------------------|-------------------|
| Vacation | \$ 588,883 |
| Sick leave | 276,314 |
| Compensatory time | <u>37,844</u> |
| Total | <u>\$ 903,041</u> |

Note 3 - Detailed Notes on All Funds (Continued)

Changes in Long-term Debt - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2015 (includes internal service fund):

| | Outstanding 1/1/2015 | Additions | Reductions | Outstanding 12/31/2015 | Amounts Due in One Year |
|---------------------------------------|-------------------------|-------------------|---------------------|---------------------------|----------------------------|
| Governmental Activities | | | | | |
| General obligation bonds | \$ 1,140,000 | \$ - | \$ 295,000 | \$ 845,000 | \$ 180,000 |
| Limited liability GO bond | 1,475,000 | - | 225,000 | 1,250,000 | 230,000 |
| Public works board loan | 120,000 | - | 30,000 | 90,000 | 30,000 |
| Intergovernmental Payable | 255,507 | - | 255,507 | - | - |
| Pension Liabilities | - | 4,044,240 | - | 4,044,240 | - |
| Compensated absences | 822,811 | 454,790 | 477,957 | 799,644 | 161,469 |
| OPEB | 2,607,055 | 1,389,741 | 578,421 | 3,418,375 | - |
| Total Governmental Activities | \$ 6,420,373 | 5,888,771 | \$ 1,861,885 | \$ 10,447,259 | \$ 601,469 |
| Business-Type Activities | | | | | |
| Public works trust fund loan | \$ 775,268 | \$ - | \$ 98,984 | \$ 676,284 | \$ 98,984 |
| Utility revenue bonds | 16,300,000 | - | 670,000 | 15,630,000 | 700,000 |
| Unamortized bond premium | 1,037,881 | - | 31,093 | 1,006,788 | 47,174 |
| Total loans and bonds | 18,113,149 | - | 800,077 | 17,313,072 | 846,158 |
| Pension Liabilities | - | 701,963 | - | 701,963 | - |
| Compensated absences | 99,902 | 72,414 | 68,919 | 103,397 | 20,679 |
| Total Business-Type Activities | \$ 18,213,051 | \$ 774,377 | \$ 868,996 | \$ 18,118,432 | \$ 866,837 |

The general obligation bonds and the local loan are being retired by the debt service fund. The compensated absences liability and net OPEB obligation will be paid from the fund from which the employees' salaries are paid. The public works board loan is being retired from the transportation benefit district fund. The public works trust fund loan is being retired from the water utility fund. The 2010 water and sewer revenue bonds are being retired by water utility fund (41.666%), sewer utility fund (16.666%) and the storm water utility fund (41.666%). The 2012 revenue bonds are being retired by the water utility fund (31.37%), and the storm water utility fund (68.63%). The 2014 revenue bonds will be retired by the water utility fund (62.9%) and the storm water utility fund (37.1%).

3-G. Operating Lease

On November 15, 2013, the City entered into an operating lease agreement with the Mountlake Terrace Senior's Group, a Nonprofit Organization, for the use of the Ballinger Golf Course Clubhouse.

The minimum lease payments are as follows:

| Year | Minimum Lease Payments |
|--------------|---------------------------|
| 2016 | 18,000 |
| 2017 | 18,000 |
| 2018 | 18,000 |
| Total | \$ 54,000 |

Note 3 - Detailed Notes on All Funds (Continued)

3-H. Pensions

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

| Aggregate Pension Amounts – All Plans | |
|--|---------------|
| Pension liabilities | \$ 4,746,203 |
| Pension assets | \$ 1,480,221 |
| Deferred outflows of resources | \$ 685,359 |
| Deferred inflows of resources | (\$1,242,924) |
| Pension expense/expenditures | \$ 20,350 |

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 state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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 CARF may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

Plan Description

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

Note 3 - Detailed Notes on All Funds (Continued)

| PERS Plan 1 | | |
|-----------------------------------|-----------------|------------------|
| Actual Contribution Rates: | Employer | Employee* |
| January through June 2015 | 9.21% | 6.00% |
| July through December 2015 | 11.18% | 6.00% |

* For employees participating in JBM, the contribution rate was 12.26%

The city’s actual contributions to the plan were \$9,343 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member’s 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

| PERS Plan 2/3 | | |
|-----------------------------------|---------------------|--------------------|
| Actual Contribution Rates: | Employer 2/3 | Employee 2* |
| January through June 2015 | 9.21% | 4.92% |
| July through December 2015 | 11.18% | 6.12% |
| Employee PERS Plan 3 | | varies |

* For employees participating in JBM, the contribution rate was 15.30%

The city’s actual contributions to the plan were \$297,705 for the year ended December 31, 2015.

Note 3 - Detailed Notes on All Funds (Continued)

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS 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 ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. Employers paid only the administrative expense of 0.18 percent of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

| LEOFF Plan 2 | | |
|-----------------------------------|-----------------|-----------------|
| Actual Contribution Rates: | Employer | Employee |
| State and local governments | 5.23% | 8.41% |
| Ports and Universities | 8.59% | 8.41% |

The city's actual contributions to the plan were \$136,795 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

Note 3 - Detailed Notes on All Funds (Continued)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market

Note 3 - Detailed Notes on All Funds (Continued)

assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income | 20% | 1.70% |
| Tangible Assets | 5% | 4.40% |
| Real Estate | 15% | 5.80% |
| Global Equity | 37% | 6.60% |
| Private Equity | 23% | 9.60% |
| | 100% | |

Sensitivity of NPL

The table below presents the city’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------|--------------------|------------------------------|--------------------|
| PERS 1 | \$ 3,101,224 | \$ 2,547,201 | \$ 2,070,792 |
| PERS 2/3 | 6,429,996 | 2,199,003 | (1,040,511) |
| LEOFF 1 | (347,972) | (543,916) | (710,922) |
| LEOFF 2 | 937,649 | (936,305) | (2,346,527) |
| | | | |

Pension Plan Fiduciary Net Position

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015 the city reported a total pension liability of \$4,746,204 and total pension assets of \$1,480,221 for its proportionate share of the net pension liabilities/(assets) as follows:

| | Liability (or Asset) |
|----------|----------------------|
| PERS 1 | \$ 2,547,201 |
| PERS 2/3 | 2,199,003 |
| LEOFF 1 | (543,916) |
| LEOFF 2 | (936,305) |

Note 3 - Detailed Notes on All Funds (Continued)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for the State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the city were as follows:

| | Liability (or Asset) |
|---|-----------------------------|
| LEOFF 2 – employer’s proportionate share | \$ (936,305) |
| LEOFF 2 – State’s proportionate share of the net pension liability/(asset) associated with the employer | (619,019) |
| TOTAL | \$ (1,555,324) |

At June 30, the city’s proportionate share of the collective net pension liabilities was as follows:

| | Proportionate Share 6/30/14 | Proportionate Share 6/30/15 | Change in Proportion |
|----------|------------------------------------|------------------------------------|-----------------------------|
| PERS 1 | % 0.0539190 | % 0.0486950 | % (0.0052240) |
| PERS 2/3 | 0.0652920 | 0.0615440 | (0.0037480) |
| LEOFF 1 | 0.0447580 | 0.0451300 | 0.0003720 |
| LEOFF 2 | 0.0872020 | 0.0910980 | 0.0038960 |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Non-employer allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed 12.88 percent of the employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with the update procedures use to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2015 the city recognized pension expense as follows:

| | Pension Expense |
|--------------|------------------------|
| PERS 1 | \$ (145,627) |
| PERS 2/3 | 224,696 |
| LEOFF 1 | (110,401) |
| LEOFF 2 | 51,682 |
| TOTAL | \$ 20,350 |

Note 3 - Detailed Notes on All Funds (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015 the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 0 | \$ 0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$ 0 | \$139,360 |
| Changes of assumptions | \$ 0 | \$ 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 0 | \$ 0 |
| Contributions subsequent to the measurement date | \$132,136 | \$ 0 |
| TOTAL | \$132,136 | \$139,360 |

| PERS 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 233,755 | \$ 0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$ 0 | \$587,026 |
| Changes of assumptions | \$ 3,543 | \$ 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 0 | \$ 120,598 |
| Contributions subsequent to the measurement date | \$163,511 | \$ 0 |
| TOTAL | \$400,809 | \$707,624 |

| LEOFF 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 0 | \$ 0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$ 0 | \$ 91,824 |
| Changes of assumptions | \$ 0 | \$ 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 0 | \$ 0 |
| Contributions subsequent to the measurement date | \$ 0 | \$ 0 |
| TOTAL | \$ 0 | \$ 91,824 |

Note 3 - Detailed Notes on All Funds (Continued)

| LEOFF 2 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 81,989 | \$ 0 |
| Net difference between projected and actual investment earnings on pension plan investments | \$ 0 | \$ 283,696 |
| Changes of assumptions | \$ 2,470 | \$ 0 |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ 0 | \$ 20,419 |
| Contributions subsequent to the measurement date | \$ 67,955 | \$ 0 |
| TOTAL | \$ 152,414 | \$ 304,115 |

Deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS 1 | PERS 2/3 | PERS 2/3 | PERS 2/3 |
|------------------------------------|---------------|-----------------|-----------------|-----------------|
| 2016 | \$ (54,011) | \$ (194,851) | \$ (35,631) | \$ (98,586) |
| 2017 | (54,011) | (194,851) | (35,631) | (98,586) |
| 2018 | (54,011) | (194,851) | (35,631) | (98,586) |
| 2019 | 22,673 | 114,224 | 15,069 | 61,323 |
| 2020 | - | - | - | 12,316 |
| Thereafter | - | - | - | 2,463 |

Other Retirement Systems and Other Employee Benefit Trust Funds

Volunteer Firefighters Relief and Pension Fund

The Volunteer Firefighters Relief and Pension Fund System is a cost-sharing multiple-employer retirement system, which was created by the Legislature in 1945 under Chapter 41.16 RCW. It provides pension, disability, and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State (except those employees covered by LEOFF).

Note 3 - Detailed Notes on All Funds (Continued)

The system is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40% of the Fire Insurance Premium Tax. Members do not earn interest on their contributions. However, they may elect to withdraw their contribution upon termination. Currently, the City does not have any members in this system.

Note 3 - Detailed Notes on All Funds (Continued)

Municipal Employees Benefit Trust

On September 30, 1975, the City elected, pursuant to law, to withdraw from the Federal Social Security System. A substitute defined contribution plan, known as the Municipal Employees Benefit Trust (MEBT), was set up under Internal Revenue Code requirements. A board, comprised of City employees, is empowered with the leadership of the Trust. All regular full-time and part-time employees are eligible to participate in the program.

The City and the participants are required to contribute an amount equal to that, which would have been required under the Federal Insurance Contribution Act (less the amount contributed for Medicare insurance.) For 2015, the City's contribution rate was 4.96% and the participant's contribution rates were 6.2% of gross salary. Contributions by temporary employees are 7.5% of salary as required by law for employees not covered by any other retirement program.

Until the year 2000, every participant could contribute additional voluntary amounts not to exceed 10% of the participant's total compensation for all participating years less total voluntary contributions for all previous plan years. Effective January 1, 2000, voluntary contributions were no longer permissible.

All participants have a non-forfeitable interest in the employee's mandatory and voluntary contributions. Participants vest at the rate of 20% per year (up to five years) in the employer's share of the account balance.

The City's covered payroll for the year ended December 31, 2015 was \$8,518,487.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2015 were:

| | Contribution Rate | Amount |
|----------|----------------------|-----------|
| Employer | 4.96% | \$410,210 |
| Employee | 6.2% or 7.5% | 512,765 |

The market value of assets available for plan benefits as of December 31, 2015 is \$19,139,390. Assets of the plan are not the property of the City and are not included in the accompanying financial statements.

3-I. Other Postemployment Benefits

Plan Description - As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 28 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

Plan Description (Medical Services) - There are basically two sections in the Chapter 41 Revised Code of Washington (RCW 41) that outline the medical services the City is obligated to provide to LEOFF I members: RCW 41.26.030(22) and 41.26.150. The two RCWs are listed in reverse below, since it is the latter section that provides the broad requirement:

Note 3 - Detailed Notes on All Funds (Continued)

41.26.150 - Sickness or disability benefits — Medical services.

(1) Whenever any active member, or any member hereafter retired, on account of service, sickness, or disability, not caused or brought on by dissipation or abuse, of which the disability board shall be judge, is confined in any hospital or in home, and whether or not so confined, requires medical services, the employer shall pay for the active or retired member the necessary medical services not payable from some other source as provided for in subsection (2) of this section. In the case of active or retired firefighters the employer may make the payments provided for in this section from the firemen's pension fund established pursuant to RCW 41.16.050 where the fund had been established prior to March 1, 1970. If this pension fund is depleted, the employer shall have the obligation to pay all benefits payable under chapters 41.16 and 41.18 RCW

(a) The disability board in all cases may have the active or retired member suffering from such sickness or disability examined at any time by a licensed physician or physicians, to be appointed by the disability board, for the purpose of ascertaining the nature and extent of the sickness or disability, the physician or physicians to report to the disability board the result of the examination within three days thereafter. Any active or retired member who refuses to submit to such examination or examinations shall forfeit all rights to benefits under this section for the period of the refusal.

(b) The disability board shall designate the medical services available to any sick or disabled member.

(2) The medical services payable under this section will be reduced by any amount received or eligible to be received by the member under workers' compensation, social security including the changes incorporated under Public Law 89-97, insurance provided by another employer, other pension plan, or any other similar source. Failure to apply for coverage if otherwise eligible under the provisions of Public Law 89-97 shall not be deemed a refusal of payment of benefits thereby enabling collection of charges under the provisions of this chapter.

(3) Upon making the payments provided for in subsection (1) of this section, the employer shall be subrogated to all rights of the member against any third party who may be held liable for the member's injuries or for payment of the cost of medical services in connection with a member's sickness or disability to the extent necessary to recover the amount of payments made by the employer.

(4) Any employer under this chapter, either singly, or jointly with any other such employer or employers through an association thereof as provided for in chapter 48.21 RCW, may provide for all or part of one or more plans of group hospitalization and medical aid insurance to cover any of its employees who are members of the Washington law enforcement officers' and firefighters' retirement system, and/or retired former employees who were, before retirement, members of the retirement system, through contracts with regularly constituted insurance carriers, with health maintenance organizations as defined in chapter 48.46 RCW, or with health care service contractors as defined in chapter 48.44 RCW. Benefits payable under any the [under the] plan or plans shall be deemed to be amounts received or eligible to be received by the active or retired member under subsection (2) of this section.

(5) Any employer under this chapter may, at its discretion, elect to reimburse a retired former employee under this chapter for premiums the retired former employee has paid for medical insurance that supplements Medicare, including premiums the retired former employee has paid for Medicare part B coverage.

RCW 41.26.030(22) defines the actual medical services to be provided to LEOFF I members.

“Medical services” for plan 1 members, shall include the following as minimum services to be provided. Reasonable charges for these services shall be paid in accordance with RCW 41.26.150.

(a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for

(i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.

Note 3 - Detailed Notes on All Funds (Continued)

- (ii) Necessary hospital services, other than board and room, furnished by the hospital.
- (iii) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".
 - a. The fees of the following:
 - i. A physician or surgeon licensed under the provisions of chapter 18.71 RCW;
 - ii. An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;
 - iii. A chiropractor licensed under the provisions of chapter 18.25 RCW.
 - b. The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.
 - c. The charges for the following medical services and supplies:
 - i. Drugs and medicines upon a physician's prescription;
 - ii. Diagnostic X-ray and laboratory examinations;
 - iii. X-ray, radium, and radioactive isotopes therapy;
 - iv. Anesthesia and oxygen;
 - v. Rental of iron lung and other durable medical and surgical equipment;
 - vi. Artificial limbs and eyes, and casts, splints, and trusses;
 - vii. Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;
 - viii. Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;
 - ix. Nursing home confinement or hospital extended care facility;
 - x. Physical therapy by a registered physical therapist;
 - xi. Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;
 - xii. An optometrist licensed under the provisions of chapter 18.53 RCW

Plan Description (Long-Term Care Insurance) - To address the "nursing home confinement or hospital extended care facility" requirement under Washington law, we have a contract with UNUM insurance for long-term-care. The policy covers the following:

- Up to \$3,000 per month toward a long term residential care facility;
- Up to \$1,800 per month toward an assisted living facility;

These amounts are adjusted for inflation on an annual basis.

Plan Description (Medicare Premiums) - The City also pays the Medicare premium for qualifying LEOFF I retirees as outlined in RCW 41. The cost of this premium (approximately \$105 per month in 2015) is offset by a lower insurance premium.

Funding Policy- Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. The City has not advance-funded or established a funding methodology for the annual OPEB costs or to retire the net OPEB obligation (i.e., the City's funding policy is based upon pay-as-you-go financing requirements).

Annual OPEB Cost and Net OPEB Obligation – The following table includes the City's annual OPEB cost for the last two years, the amount actually contributed to the plan, and the changes in the City's net OPEB obligation:

Note 3 - Detailed Notes on All Funds (Continued)

| | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|---------------------------------------|--------------------------|--------------------------|
| Annual required contribution (ARC) | \$ 1,285,459 | \$ 967,721 |
| Interest on net pension obligation | 104,282 | 83,174 |
| Contributions made | (343,940) | (336,170) |
| Amortization of net OPEB obligation | <u>(234,481)</u> | <u>(187,019)</u> |
| Increase in net OPEB obligation | 811,320 | 527,706 |
| Net OPEB obligation beginning of year | <u>2,607,055</u> | <u>2,079,349</u> |
| Net OPEB obligation end of year | <u>\$ 3,418,375</u> | <u>\$ 2,607,055</u> |

Funded Status and Funding Progress – Since this is the sixth year of the plan, multiyear trend data is only available for six years. The City’s funding status based upon the two most recent alternative method calculations follows:

| Schedule of Funding Progress | | | | | | |
|------------------------------|----------------------------------|----------------------------------|-----------------------------|------------------------------------|--------------------------------|--|
| Measurement Date | (1) Actuarial Value of Assets | (2) Actuarial Liability (AAL) | (3) Funded Ratio (1)/(2) | (4) Unfunded AAL/(UAAL) (2)-(1) | (5) Annual Covered Payroll* | (6) UAAL as a Percentage of Covered Payroll |
| 12/31/2010 | \$ - | \$ 7,703,942 | 0.0% | \$ 7,703,942 | \$ - | N/A |
| 12/31/2011 | - | 8,369,518 | 0.0% | 8,369,518 | - | N/A |
| 12/31/2012 | - | 7,678,571 | 0.0% | 7,678,571 | - | N/A |
| 12/31/2013 | - | 11,205,013 | 0.0% | 11,205,013 | - | N/A |
| 12/31/2014 | - | 10,759,496 | 0.0% | 10,759,496 | - | N/A |

* The covered payroll was zero as all covered employees are retired.

Alternative Measurement Method and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the calculation of the OPEB.

The City used the alternative measurement method to calculate the unfunded Accrued Actuarial Liability (AAL). The estimates of the values reported and assumptions about the probability of the future are actuarially determined amounts and are subject to continual revision and are compared to past expectations and new estimates are about future and actuarial calculations reflect a long term perspective. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was the Projected Unit Credit method. The AAL and Net OPEB Obligation are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Note 3 - Detailed Notes on All Funds (Continued)

The City’s alternative measurement information is as follows:

| | |
|----------------------------|---------------------------|
| Actuarial Cost Method | Projected Unit Credit |
| Amortization Method | Level Dollar Amount, Open |
| Amortization Period | 15 years |
| Asset Valuation Method | N/A |
| Actuarial Assumptions: | |
| Investment rate of return | N/A |
| Healthcare Cost Trend Rate | 6.625% |

3-J. Fund Equity

Fund Balances – Fund balances are classified as follows:

- **Nonspendable** – The following fund balances are nonspendable because they are not in spendable form:

General Fund:

| | |
|-------------|------------------|
| Inventories | <u>\$ 30,197</u> |
|-------------|------------------|

- **Restricted** – The following fund balances are legally restricted to specified purposes:

Street Construction Fund:

| | |
|---------------------|-------------------|
| Street construction | <u>\$ 134,371</u> |
|---------------------|-------------------|

Capital Improvements Fund:

| | |
|--------------------|----------------|
| Park improvements | \$ 640,382 |
| Cable improvements | <u>151,077</u> |

Total Capital Improvements Fund:

| |
|-------------------|
| <u>\$ 791,459</u> |
|-------------------|

Nonmajor Governmental Funds:

| | |
|-----------------------------|----------------|
| Street improvements | \$ 27,584 |
| Tourism promotion | 22,576 |
| Rental housing inspections | 277,845 |
| Transportation improvements | 16,115 |
| Debt service | 20,128 |
| Capital outlay | <u>185,229</u> |

Total Nonmajor Governmental Funds:

| |
|-------------------|
| <u>\$ 549,477</u> |
|-------------------|

- **Committed** – The following fund balances are committed to specific purposes:

General Fund:

| | |
|---------------------------|---------------|
| Working capital | \$ 629,785 |
| Catastrophic fluctuations | 718,000 |
| Accrued leave | <u>54,303</u> |

Total General Fund

| |
|---------------------|
| <u>\$ 1,402,088</u> |
|---------------------|

Note 3 - Detailed Notes on All Funds (Continued)

- **Assigned** – The following fund balances are assigned to specific purposes:

| | |
|----------------------------------|------------|
| General Fund: | |
| Service charge relief | \$ 49,498 |
| <hr/> | |
| Street Construction Fund: | |
| Street construction | \$ - |
| <hr/> | |
| Capital Improvement Fund: | |
| Capital assets | \$ 185,229 |
| <hr/> | |

Net Investment in Capital Assets – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2015 are as follows:

| | Governmental Activities | Business- type Activities |
|-----------------------------------|----------------------------|---------------------------------|
| | <hr/> | <hr/> |
| Net investment in capital assets: | | |
| Total capital assets | \$ 57,512,502 | \$ 60,101,577 |
| Less accumulated depreciation | 29,354,182 | 19,225,499 |
| Net capital assets | <hr/> 28,158,320 | <hr/> 40,876,078 |
| Less capital related debt | 935,000 | 16,306,284 |
| Add unspent bond proceeds | | 4,105,943 |
| Less unamortized bond premium | - | 1,006,788 |
| | <hr/> | <hr/> |
| Net investment in capital assets | <hr/> \$ 27,223,320 | <hr/> \$ 27,668,949 |

Note 4 - Other Notes

4-A. Risk Management

The city of Mountlake Terrace is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

Note 4 - Other Notes (continued)

In-house services include risk management consultation, loss control field services, claims and litigation administration, and

loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

4-B. Contingent Liabilities

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the City believes such disallowances, if any, will be immaterial.

The City was a defendant in several lawsuits at December 31, 2015. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

4-C. Joint Ventures

AWC Benefit Trust - The City of Mountlake Terrace is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Note 4 - Other Notes (Continued)

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Snohomish County Emergency Radio System - The City participates in a single joint venture with Snohomish County and other local governments in the "*Snohomish County Emergency Radio System*," (SERS) a public non-profit corporation formed in 1999. The purpose of SERS is to design, develop, finance, acquire, install, operate, maintain and repair and replace the county's public safety communications service.

SERS was established via an interlocal agreement between the County, eight cities, and a fire district located within the county. Each member city and the County provide a voting member to the SERS board of directors. The purpose of SERS is to develop a countywide public safety communications system. The County financed its investment in SERS with general obligations bond proceeds.

The Cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo and Woodway, and Snohomish County are jointly responsible for the financing of SERS. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates population, geographic service area and usage of emergency service via service calls to dispatch centers. Each member provides a voting representative to SERS governing board of directors. The SERS board has the authority to approve system design, project expenditures and adopt SERS budget.

At December 31, 2015, the City owned an equity interest in the SERS joint venture of \$228,247. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2015. The County financed its capital contribution to SERS via the issuance of bonded debt. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the County and SERS as recorded in the County's financial system. The County, who acts as the entity's fiscal agent under the Administrative Services Agreement signed on January 19, 2000, prepares the unaudited financial information. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201

Southwest Snohomish County Public Safety Communications Agency - The City of Mountlake Terrace participates in a single joint venture with other local governments in the "*Southwest Snohomish County Public Safety Communications Agency*," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Mountlake Terrace, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

Note 4 - Other Notes (Continued)

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2015, the City of Mountlake Terrace owned an equity interest in the SNOCOM joint venture of \$437,758. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2015. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who acts as the entity's fiscal agent under the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

Alliance for Housing Affordability (AHA) - In September, 2013, the City joined the cities of Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County. Fiscal agent duties are performed by the City of Mountlake Terrace.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City's equity share to date is:

| <u>Year</u> | <u>Budget</u> | <u>Amount</u> | <u>Percentage</u> |
|-------------|---------------|---------------|-------------------|
| 2013 | \$ 89,850 | \$ 1,188 | 1.32% |
| 2014 | 92,543 | 1,224 | 1.32% |
| 2015 | 123,464 | 1,529 | 1.24% |
| 2016 | 145,590 | 1,202 | 0.83% |

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the agreement paid by each member.

Budget monitoring information can be obtained from Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219th Street SW, Mountlake Terrace WA 98043 (or email: cwooldridge@ci.mlt.wa.us) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204

Edmonds Wastewater Treatment Plant - The majority of the City's wastewater treatment services are provided by the City of Edmonds and Mountlake Terrace is a part owner of the Edmonds Wastewater Treatment Plant (EWWTP). A thirty year interlocal agreement between the two cities was signed in 1988 and will expire in 2018. According to the EWWTP Interlocal agreement, the City of Mountlake Terrace is responsible for paying 23.174% of the total capital improvement costs of this plant. The value of the City's share of EWWTP is included in the City's Intangible Asset section of the Sewer Utility Fund's capital assets.

Note 4 - Other Notes (Continued)

Emergency Services Coordinating Agency (ESCA) - In accordance with generally accepted accounting principles, ESCA is a joint venture with each entity's equity interest reported on its member entities' financial statements.

Ten member agencies provide the majority of operating revenue to ESCA. The method of allocating this revenue source is defined in the *Interlocal Agreement for the Emergency Services Coordinating Agency Section 4 Budgeting and Financial Participation* 4.1 "Annual budget participation shall be based upon the population of each party compared to the total population of the parties. Operating payments shall be made by January 31 of each year". Section *7 Term and Dissolution* states, "The value of the assets shall be then apportioned between the parties to the agreement in the same proportion as their financial participation in the budget year of dissolution".

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year.

4-D. Encumbrance Commitments

As of December 31, 2015, the City has encumbered amounts that they intend to honor in the subsequent fiscal year for the following major governmental funds and nonmajor in the aggregate:

Major Governmental Funds:

| | |
|---------------------------------------|-------------------|
| Street Construction Fund | 198,863 |
| | <hr/> |
| Total Major Governmental Funds | \$ 198,863 |
| | <hr/> <hr/> |

4-E. Subsequent Event

Property Tax Levy

In August of 2016, the voters approved a regular property tax levy for 2017 collections of \$1.95 per \$1,000 of assessed valuation. This is a \$0.44 increase over the 2016 rate and was estimated to bring in an additional \$941,000 in annual property tax revenue. The \$0.44 increase in property tax revenue will be used for Interim City Hall rent and recreation and parks.

Mountlake Terrace Transportation Benefit District

On October 3, 2016, City Council adopted ordinance 2690 assuming the rights, powers, functions and obligations of the Mountlake Terrace Transportation Benefit District and abolishing the current transportation benefit's governing board effecting December 31, 2016.

City of Mountlake Terrace, Washington
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|--|----------------------------|-------------------------|---------------------|---|
| Revenues | | | | |
| Taxes | \$ 11,286,235 | \$ 10,861,235 | \$ 10,713,333 | \$ (147,902) |
| Licenses and permits | 1,014,842 | 765,842 | \$ 854,362 | 88,520 |
| Intergovernmental | 567,571 | 553,571 | \$ 595,327 | 41,756 |
| Charges for services | 3,272,880 | 3,117,880 | \$ 2,926,505 | (191,375) |
| Fines and forfeitures | 437,750 | 337,750 | \$ 320,981 | (16,769) |
| Internal balances | 254,120 | 238,120 | \$ 191,917 | (46,203) |
| Investment earnings | 23,720 | 15,720 | \$ 14,806 | (914) |
| Miscellaneous | 156,190 | 123,190 | \$ 179,367 | 56,177 |
| Total Revenues | 17,013,308 | 16,013,308 | 15,796,598 | (216,710) |
| Expenditures | | | | |
| Current: | | | | |
| General government | 1,831,401 | 1,822,101 | 1,894,156 | (72,055) |
| Judicial | 940,878 | 840,878 | 824,847 | 16,031 |
| Public safety | 8,968,040 | 8,646,519 | 8,654,147 | (7,628) |
| Physical environment | 744,221 | 770,336 | 862,250 | (91,914) |
| Community development | 362,638 | 370,203 | 264,866 | 105,337 |
| Culture and recreation | 3,687,513 | 3,637,513 | 3,322,464 | 315,049 |
| Total Expenditures | 16,534,691 | 16,087,550 | 15,822,730 | 264,820 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 478,617 | (74,242) | (26,132) | 48,110 |
| Other Financing (Uses) | | | | |
| Transfers out | (865,800) | (906,500) | (289,803) | 616,697 |
| Net Change in Fund Balances | \$ (387,183) | \$ (980,742) | (315,935) | \$ 664,807 |
| Fund Balances Beginning of Year | | | 1,797,718 | |
| Fund Balances End of Year | | | \$ 1,481,783 | |

See accompanying notes to the required supplementary information

City of Mountlake Terrace, Washington
Street Construction Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2015

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|--|----------------------------|-------------------------|--------------------|---|
| Revenues | | | | |
| Intergovernmental | \$ 2,872,504 | \$ 3,228,803 | \$ 2,601,058 | \$ (627,745) |
| Charges for services | 532,000 | 687,000 | 448,718 | (238,282) |
| Investment earnings | 24,114 | 19,925 | 13,354 | (6,571) |
| Miscellaneous | 30,000 | 30,000 | 43,490 | 13,490 |
| Internal balances | <u>3,458,618</u> | <u>3,965,728</u> | <u>3,106,620</u> | <u>(859,108)</u> |
| Expenditures | | | | |
| Current | | | | |
| Transportation | 4,135,318 | 5,471,734 | 135,615 | 5,336,119 |
| Capital Outlay | - | - | 4,589,819 | (4,589,819) |
| Total Expenditures | <u>4,135,318</u> | <u>5,471,734</u> | <u>4,725,434</u> | <u>746,300</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(676,700)</u> | <u>(1,506,006)</u> | <u>(1,618,814)</u> | <u>(112,808)</u> |
| Other Financing Sources | | | | |
| Inception of intergovernmental loan | - | - | - | - |
| Transfers in | 200,000 | 324,000 | 324,000 | - |
| Other Financing Sources | <u>200,000</u> | <u>324,000</u> | <u>324,000</u> | <u>-</u> |
| Net Change in Fund Balances | <u>\$ (476,700)</u> | <u>\$ (1,182,006)</u> | <u>(1,294,814)</u> | <u>\$ (112,808)</u> |
| Fund Balances Beginning of Year | | | <u>1,425,196</u> | |
| Fund Balances End of Year | | | <u>\$ 130,382</u> | |

See accompanying notes to the required supplementary information

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Other Post-Employment Medical Benefits (OPEB)

Schedule of Funding Progress

| Measurement Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Funded Ratio (1)/(2) | (4) Unfunded AAL/(UAAL) (2)-(1) | (5) Annual Covered Payroll* | (6) UAAL as a Percentage of Covered Payroll |
|------------------|----------------------------------|--|-----------------------------|------------------------------------|--------------------------------|--|
| 12/31/2010 | \$ - | \$ 7,703,942 | 0.0% | \$ 7,703,942 | \$ - | N/A |
| 12/31/2011 | - | 8,369,518 | 0.0% | 8,369,518 | - | N/A |
| 12/31/2012 | - | 7,678,571 | 0.0% | 7,678,571 | - | N/A |
| 12/31/2013 | - | 11,205,013 | 0.0% | 11,205,013 | - | N/A |
| 12/31/2014 | - | 10,759,496 | 0.0% | 10,759,496 | - | N/A |

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - Plan 1
As of June 30, 2015
Last 1 Fiscal Year

| | <u>2015</u> |
|--|-------------|
| <u>Employer's proportion of the net pension liability (asset)</u> | % |
| | 0.0486950% |
| <u>Employer's proportionate share of the net pension liability</u> | \$ |
| | 2,547,201 |
| <u>Employer's covered employee payroll</u> | \$ |
| | 91,942 |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | % |
| | 2770.44% |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | % |
| | 59.10% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - Plan 1
As of December 31, 2015
Last 1 Fiscal Year

| | <u>2015</u> |
|---|---------------------|
| <u>Statutorily or contractually required contributions</u> | \$ 241,250 |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ <u>(241,250)</u> |
| <u>Contribution deficiency (excess)</u> | <u>0</u> |
| <u>Covered employer payroll</u> | \$ 91,942 |
| <u>Contributions as a percentage of covered employee payroll</u> | % 262.39% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - Plan 2/3
As of June 30, 2015
Last 1 Fiscal Year

| | <u>2015</u> |
|--|-------------|
| <u>Employer's proportion of the net pension liability (asset)</u> | % |
| | 0.0615440% |
| <u>Employer's proportionate share of the net pension liability</u> | \$ |
| | 2,199,002 |
| <u>Employer's covered employee payroll</u> | \$ |
| | 5,292,444 |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | % |
| | 41.55% |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | % |
| | 89.20% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - Plan 2/3
As of December 31, 2015
Last 1 Fiscal Year

| | <u>2015</u> |
|---|---------------------|
| <u>Statutorily or contractually required contributions</u> | \$ 297,705 |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ <u>(297,705)</u> |
| <u>Contribution deficiency (excess)</u> | <u>0</u> |
| <u>Covered employer payroll</u> | \$ 5,292,444 |
| <u>Contributions as a percentage of covered employee payroll</u> | % 5.63% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System - LEOFF 1
 As of June 30, 2015
 Last 1 Fiscal Year

| | <u>2015</u> |
|--|--------------|
| <u>Employer's proportion of the net pension liability (asset)</u> | % 0.0451300% |
| <u>Employer's proportionate share of the net pension liability</u> | \$ -543,916 |
| <u>Employer's covered employee payroll</u> | \$ 0 |
| <u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u> | % 0.00% |
| <u>Plan fiduciary net position as a percentage of the total pension liability</u> | % 127.36% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System - LEOFF 2
 As of June 30, 2015
 Last 1 Fiscal Year

| | | 2015 |
|---|----|-------------|
| Employer's proportion of the net pension liability (asset) | % | -0.0910980% |
| Employer's proportionate share of the net pension asset | \$ | -936,305 |
| LEOFF 2 employers only - State's proportionate share of the net pension liability (asset) associated with the employer | \$ | -409,091 |
| TOTAL | \$ | |
| Employer's covered employee payroll | \$ | 2,708,819 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | % | 34.57% |
| Plan fiduciary net position as a percentage of the total pension liability | % | 111.67% |

The City currently does not have 10 years of pension data available

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - LEOFF 2
As of December 31, 2015
Last 1 Fiscal Year

| | <u>2015</u> |
|---|---------------------|
| <u>Statutorily or contractually required contributions</u> | \$ 136,795 |
| <u>Contributions in relation to the statutorily or contractually required contributions</u> | \$ <u>(136,795)</u> |
| <u>Contribution deficiency (excess)</u> | <u>0</u> |
| <u>Covered employer payroll</u> | \$ 2,708,819 |
| <u>Contributions as a percentage of covered employee payroll</u> | % 5.05% |

The City currently does not have 10 years of pension data available

**City of Mountlake Terrace
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

| Federal Agency (Pass-Through Agency) | Federal Program | CFDA Number | Other Award Number | Expenditures | | | Passed through to Subrecipients | Note |
|--|--|----------------|---|---------------------------------|-----------------------|------------------|---------------------------------------|------|
| | | | | From Pass- Through Awards | From Direct Awards | Total | | |
| Section 8 Project-Based Cluster | | | | | | | | |
| Office Of Public And Indian Housing, Department Of Housing And Urban Development (via Snohomish County) | Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation | 14.856 | HUD Hasco Grant in lieu of taxes | 10,108 | - | 10,108 | - | 2 |
| Total Section 8 Project-Based Cluster: | | | | 10,108 | - | 10,108 | - | |
| Highway Planning and Construction Cluster | | | | | | | | |
| Federal Highway Administration (fhw), Department Of Transportation (via WA State DOT) | Highway Planning and Construction | 20.205 | STPUL-2519 (003) Main Street Reconstruction LA7978 | 225,586 | - | 225,586 | - | 2 |
| Federal Highway Administration (fhw), Department Of Transportation (via WA State DOT) | Highway Planning and Construction | 20.205 | CM-2504(002) LA-8506 236TH St. Ped Accessibility (48th to 56th) | 193,313 | - | 193,313 | - | 2 |
| Federal Highway Administration (fhw), Department Of Transportation (via WA State DOT) | Highway Planning and Construction | 20.205 | HSIP-000S (363) Agreement LA- 8162 - 2013 Citywide Safety Improvements | 2,000 | - | 2,000 | - | 2 |
| Federal Highway Administration (fhw), Department Of Transportation (via WA State DOT) | Highway Planning and Construction | 20.205 | CM-STPD-0815 (004) Agreement LA7617 Lakeview Trail | 2,070,599 | - | 2,070,599 | - | 2 |
| Total Highway Planning and Construction Cluster: | | | | 2,491,498 | - | 2,491,498 | - | |
| Highway Safety Cluster | | | | | | | | |

The accompanying notes are an integral part of this schedule.

**City of Mountlake Terrace
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2015**

| Federal Agency (Pass-Through Agency) | Federal Program | CFDA Number | Other Award Number | Expenditures | | | Note |
|---|---|----------------|---|---------------------------------|-----------------------|---------------------------------------|------------------|
| | | | | From Pass- Through Awards | From Direct Awards | Passed through to Subrecipients | |
| National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via Wa Traffic Safety Commission) | State and Community Highway Safety | 20.600 | Washington Traffic Safety Funds 2013 WASPC Traffic Safety Emergency Funds | 2,979 | - | - | 2 |
| National Highway Traffic Safety Administration (nhisa), Department Of Transportation (via Wa Traffic Safety Commission) | State and Community Highway Safety | 20.600 | WASPC Traffic Safety Equipment Grant/In-car video system | 2,500 | - | - | 2 |
| Total Highway Safety Cluster: | | | | 5,479 | - | - | 5,479 |
| Region 10, Environmental Protection Agency (via WA State Dept of Commerce LCLIP) | Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program | 66.123 | Agreement Number 12- 63401-011 | 6,930 | - | - | 2 |
| Department Of Homeland Security (via Wa St. Emergency Mgmt/Wash Military Dept.) | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 4242-DR-WA August 2015 Windstorm | 34,595 | - | - | 2 |
| Total Federal Awards Expended: | | | | 2,548,610 | - | - | 2,548,610 |

The accompanying notes are an integral part of this schedule.

CITY OF MOUNTLAKE TERRACE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses the accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED
UNDER UNIFORM GUIDANCE**

**City of Mountlake Terrace
Snohomish County
January 1, 2015 through December 31, 2015**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the City of Mountlake Terrace.

| | |
|---|---|
| Finding ref number: 2015-001 | Finding caption: The City’s internal controls over accounting and financial reporting are inadequate to ensure accurate, complete and timely reporting. |
| Name, address, and telephone of auditee contact person: Crystil Wooldridge 6100 219th Street S.W. Mountlake Terrace, WA 98043 | |
| Corrective action the auditee plans to take in response to the finding: <i>The City corrected all errors identified except for those that were deemed to be of minor importance to the accuracy of the overall financial statements. This would allow staff more time to continue to improve and implement policies and procedures directly related to internal controls.</i> <i>The City experienced turnover in the Finance Director in both June of 2015 and again in February 2016. This position is the only position at the City that has sufficient knowledge and background necessary to prepare the financial statements. The City hired a consultant who had intimate knowledge of the City’s financials and reporting tool in hopes of minimizing the impacts to the City. After multiple deadlines were missed the City was forced to terminate the agreement and compile the financials in house.</i> <i>The City will continue to work towards improving policies and procedures, establish appropriate succession planning, and allowing adequate time to compile and remit accurate financial statements.</i> | |
| Anticipated date to complete the corrective action: December 31, 2016 | |

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

| Contact information for the State Auditor's Office | |
|---|--|
| Public Records requests | PublicRecords@sao.wa.gov |
| Main telephone | (360) 902-0370 |
| Toll-free Citizen Hotline | (866) 902-3900 |
| Website | www.sao.wa.gov |