



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Mountlake Terrace
Snohomish County

For the period January 1, 2016 through December 31, 2016

Published March 29, 2018

Report No. 1020902





Office of the Washington State Auditor

Pat McCarthy

March 29, 2018

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

Report on Financial Statements

Please find attached our report on the City of Mountlake Terrace's financial statements.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2016-001 The City's internal controls over financial statement preparation were not sufficient to ensure accurate and complete financial reporting.

Background

City councilmembers, the Mayor, state and federal agencies, and the public rely on financial statements information and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

In our previous audit, we identified material weaknesses in internal controls over financial reporting that hindered the City's ability to produce accurate financial statements. The City has improved its financial reporting process; however, it has been unable to correct all deficiencies.

Our audit identified internal control deficiencies that hindered the City's ability to produce reliable financial statements.

Description of Condition

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

- City employees responsible for preparing and reviewing the financial statements were unable to dedicate sufficient time and resources to ensure financial statements were accurate, complete and adequately reviewed.
- The City did not have procedures in place to identify all revenue owed to the City. As a result, revenue belonging to prior periods were not recognized in the financial statements until the current period.

Cause of Condition

The City experienced turnover in the Finance Director position during the audit period. Because of the transition's timing and limited accounting staff, the City was unable to dedicate the necessary time, resources and training to ensure the financial statements were free from material errors.

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. They also hinder the audit process and increase audit costs.

The following misstatements were identified during the audit. The City:

- Overstated rental revenue in the Capital Improvement fund by \$45,941 and understated the beginning unrestricted fund balance by the same amount.
- Overstated the total column for total deferred inflows of resources by \$433,318 because of a clerical error.
- Overstated the Water Utility fund ending cash and cash equivalents on the Cash Flow Statement by \$351,424.
- Misclassified capital assets by \$1,186,753 in the Statement of Net Position. This was because of an error in an internal spreadsheet that was used to calculate capital asset balances.
- Did not consolidate transfers between managerial funds, resulting in an overstatement of \$225,000 in the Other Governmental funds
- Did not prepare the Schedule of Funding Progress, which is supplementary information for OPEB under GASB Statement No. 45

We also noted additional, less significant errors in the financial statements that we communicated to the City's management during the audit. The City subsequently corrected the errors identified above.

Recommendations

We recommend the City:

- Ensure staff responsible for preparing financial statements have the necessary time and resources to prepare accurate and complete financial statements in accordance with reporting standards
- Conduct an effective, independent financial statement review that ensures the statements and footnotes comply with reporting standards
- Continue to establish and follow effective internal controls over financial statement reporting

City's Response

The City 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. As noted above, the City has improved its financial reporting process and corrected all significant errors identified during the audit.

Finance staff has made strides towards cleaning up past reporting errors and improving internal controls over the financial statement reporting. The City will ensure that there is necessary time and resources provided to prepare accurate and complete financial statements and continue to establish and follow effective internal controls.

We thank the Washington State Audit staff for all of their continued support as the City continues to improve their financial reporting processes.

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 the next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives

The American Institute of Certified Public Accounts defines a material weakness in its Codification of Statements on Audit Standards section 115 as a deficiency, or combination of deficiencies, in internal control, 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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mountlake Terrace Snohomish County January 1, 2016 through December 31, 2016

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: 2015	Report Ref. No.: 1019181	Finding Ref. No.: 2015-001
Finding Caption: The City's internal controls over accounting and financial reporting were inadequate to ensure accurate, complete and timely reporting.		
Background: The City experienced turnover in the Finance Director position during the audit period. 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.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>The City will continue its efforts improving policies and procedures, establishing appropriate succession planning, and providing adequate time and resources necessary to compile and remit accurate financial statements.</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, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 20, 2018.

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 2016-001 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

March 20, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mountlake Terrace Snohomish County January 1, 2016 through December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 14.

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, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 14 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018 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.

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

March 20, 2018

FINANCIAL SECTION

**City of Mountlake Terrace
Snohomish County
January 1, 2016 through December 31, 2016**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net
Position – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Fiduciary Net Position – Fiduciary Funds – 2016

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
– General Fund – 2016

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
– Street Construction Fund - 2016

Schedule of Funding Progress – Other Post-Employment Benefits (OPEB) – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1, LEOFF 2 -
2016

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2016

Schedule of Employer Contributions – LEOFF 2 – 2016



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, 2016. 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 \$56,289,110 (net position) for the calendar year reported.
- Total net position are comprised of the following:
 - (1) Net investment in capital assets, of \$54,448,060 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 \$5,998,049 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of (\$4,156,999) 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 \$4,319,550 this year. This compares to the prior year ending fund balance of \$3,078,035, showing an increase of \$1,241,515 or 40% 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.



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.

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 \$56,289,110. The following table provides a summary of the City's net position:

Summary of Net Position at December 31, 2016

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current assets	\$ 7,178,496	\$ 5,449,280	\$ 4,745,507	\$ 4,648,608	\$ 11,924,003	\$ 10,097,888
Capital assets	26,827,282	28,158,320	42,167,133	40,876,078	68,994,415	69,034,398
Noncurrent assets	1,530,860	2,146,226	3,868,362	5,356,630	5,399,222	7,502,856
Total assets	35,536,638	35,753,826	50,781,002	50,881,316	86,317,640	86,635,142
Deferred Outflows	1,117,723	606,536	149,578	78,823	1,267,301	685,359
Total Assets and Deferred Outflows	36,654,361	36,360,362	50,930,580	50,960,139	87,584,941	87,320,501
Liabilities:						
Current liabilities	2,170,939	1,883,452	1,739,708	1,431,624	3,910,647	3,315,076
Noncurrent liabilities	10,524,490	9,845,790	16,492,621	17,298,768	27,017,111	27,144,558
Total liabilities	12,695,429	11,729,242	18,232,329	18,730,392	30,927,758	30,459,634
Deferred Inflows	323,024	1,117,655	45,049	125,269	368,073	1,242,924
Total Liabilities and Deferred Inflows	13,018,453	12,846,897	18,277,378	18,855,661	31,295,831	31,702,558
Net position:						
Net investment in capital assets	26,102,282	27,223,320	28,345,778	27,668,949	54,448,060	54,892,269
Restricted	1,779,039	1,475,307	3,868,362	1,257,850	5,647,401	2,733,157
Unrestricted	(4,245,413)	(5,185,162)	439,062	3,177,679	(3,806,351)	(2,007,483)
Total net position	\$ 23,635,908	\$ 23,513,465	\$ 32,653,202	\$ 32,104,478	\$ 56,289,110	\$ 55,617,943

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 3.3 to 1 as compared to 2.9 to 1 at December 31, 2015. The current ratio for the business-type activities at December 31, 2016 is 2.7 to 1 as compared to 3.2 to 1 at December 31, 2015. For the City overall, the current ratio is 3 to 1 with no change compared to December 31, 2015. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$122,443 for governmental activities and increased by \$548,724 for business-type activities. The City's overall financial position increased during calendar year 2016 by \$671,167.

Note that 110.4% 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 103.4% 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, 96.7% 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	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program:						
Charges for services	\$ 5,562,603	\$ 5,489,165	\$ 9,137,269	\$ 8,443,002	\$ 14,699,872	\$ 13,932,167
Operating grants	1,002,639	725,648	10,150	-	1,012,789	725,648
Capital grants	827,112	2,913,105	48,010	153,316	875,122	3,066,421
General:						
Taxes	12,051,370	12,068,561	-	-	12,051,370	12,068,561
Other	277,571	239,360	75,367	(62,427)	352,938	176,933
Total revenues	19,721,295	21,435,839	9,270,796	8,533,891	28,992,091	29,969,730
Program Expenses:						
General government	2,656,049	2,046,150	-	-	2,656,049	2,046,150
Judicial	754,222	821,344	-	-	754,222	821,344
Public safety	9,420,880	9,209,169	-	-	9,420,880	9,209,169
Physical environment	801,795	868,515	-	-	801,795	868,515
Transportation	2,396,893	2,054,537	-	-	2,396,893	2,054,537
Economic environment	248,003	100,430	-	-	248,003	100,430
Culture and recreation	3,298,236	3,530,817	-	-	3,298,236	3,530,817
Interest	64,726	80,487	-	-	64,726	80,487
Sewer utility	-	-	3,182,053	3,288,912	3,182,053	3,288,912
Water utility	-	-	3,596,990	3,761,225	3,596,990	3,761,225
Storm water utility	-	-	1,943,029	1,866,027	1,943,029	1,866,027
Total expenses	19,640,804	18,711,449	8,722,072	8,916,164	28,362,876	27,627,613
Revenues over (under) expenses	80,491	2,724,390	548,724	(382,273)	629,215	2,342,117
Beginning net position	23,509,476	24,535,893	32,104,478	33,303,177	55,613,954	57,839,070
Beginning of year change in Accounting Principle (GASB 68)		(3,750,807)		(816,426)	-	
Prior Period Adjustment	45,941					
Ending net position	\$ 23,635,908	\$ 23,509,476	\$ 32,653,202	\$ 32,104,478	\$ 56,243,169	\$ 60,181,187

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 2016 tax revenues were \$17,191 less than those reported in 2015. Real estate taxes were \$171,152 more than 2015. Sales taxes increased \$72,157 over 2015 or 3%. 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 decreased \$13,841 or just 5/10th of 1%. Excise taxes decreased \$39,729 or 4%. Real estate excise taxes decreased \$182,693.



In total, taxes make up 61% of the total revenues stream as compared to 56.3% in 2015. Property taxes make up 23.1% of revenues, as compared to 20.5% in 2015 and the utility taxes make up 15.3% of total revenues as compared to 14.2% in 2015.

The operating grants for general government included the following:

- Liquor and Cannabis Board Taxes from the State of Washington: \$286,359
- City Assistance from the State of Washington: \$116,829
- SNOCOM Fiscal Agent Services: \$14,380
- PUD Privilege Tax in lieu of Property Tax: \$92,982

The operating grants for public safety included:

- National Highway Traffic Safety Grants: \$3,787

The source of the operating grants of \$477,159 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 Main Street Reconstruction: \$13,339
- Washington State Transportation Improvement Board for overlay of Lakeview Drive: \$551,170
- Washington State Department of Commerce Community Development Block Grant for Sidewalk Improvements: \$126,304

The City reported an investment gain of \$50,519 as compared to a \$47,381 gain in 2015. This change between years relates to unrealized gains and losses. Note that program revenues cover 37.9% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 62.1% 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, 48% of the total costs relates to public safety in 2016 as compared to 49.2% in 2015. Culture and recreation expenses make up 16.8% as compared to 18.9% in 2015.

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	
	2016	2015	2016	2015
General government	\$ 2,656,049	\$ 2,046,150	\$ 487,651	\$ (278,628)
Judicial	754,222	821,344	526,138	500,363
Public safety	9,420,880	9,209,169	8,961,789	8,698,055
Physical environment	801,795	868,515	268,624	317,027
Transportation	2,396,893	2,054,537	1,092,622	(1,185,905)
Economic environment	248,003	100,430	(316,163)	(176,134)
Culture and recreation	3,298,236	3,530,817	1,163,063	1,628,266
Interest	64,726	80,487	64,726	80,487
Total	<u>\$ 19,640,804</u>	<u>\$ 18,711,449</u>	<u>\$ 12,248,450</u>	<u>\$ 9,583,531</u>

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)		%
	2016	2015	Change
Sewer Utility	\$ 771,616	\$ 291,029	165%
Water Utility	51,951	(312,673)	-117%
Storm Water Utility	134,069	199,419	-33%
Total	<u>\$ 957,636</u>	<u>\$ 177,775</u>	<u>439%</u>



The following analysis is provided for the major enterprise funds.

Sewer Utility Fund – Revenues from charges for services increased \$386,069 or 11% in 2016 over that of 2015.

Operation and maintenance costs decreased \$105,609 or 36% below the 2015 amount. Depreciation expense decreased \$11,091 or 4% in 2016. In this year, this fund did not transfer resources to other funds. At December 31, 2016, net position totals \$10,578,921. Of this amount, \$8,349,929 or 78.9% is tied up in capital assets.

Water Utility Fund – Revenues from charges for services increased \$249,570 or 7.9%.

Operations and maintenance costs decreased \$139,903 or 4.9% below the 2015 amount. Depreciation expense increased \$24,849. As a result, the operating loss increased from a loss of \$312,673 in 2015 to a \$51,951 operating income in 2016.

In this year, this fund did not transfer resources to other funds. At December 31, 2016, the net position totaled \$15,826,505. Of this amount, \$14,290,160 or 90.3% is tied up in capital assets.

Storm Water Utility Fund - Charges for services increased \$58,628 over 2015.

Operations and maintenance expenses increased \$110,905 or 9% from the 2015 amount.

At December 31, 2016, the net position total was \$6,656,584. Of this amount, \$5,705,689 or 85.7% 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 \$4,319,550 as compared to the amount of \$3,078,035 at December 31, 2015.

The restricted amount at December 31, 2016 was \$1,779,039, relating primarily to capital improvements \$1,247,924 and \$531,115 for a variety of other restrictions.

Over \$1.4 million is committed, primarily for working capital and for revenue fluctuations.

The total ending fund balances of governmental funds show an increase of approximately \$1.2 million compared to a decrease of \$1 million at December 31, 2015.

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 increased by \$412,320 or 27.8% in 2016. This increase relates primarily to development revenue exceeding 2015 by a little over \$350,000. In calendar year 2015, the fund balance decreased \$315,935 or 17.6%.



Total revenues increased \$698,731 or 4.4% in 2016. Total taxes increased \$178,053 or 1.7%. Property taxes were up \$160,464 or 3.6% above the 2015 amount. Sales taxes increased \$82,157 or 3.2%.

Utility taxes decreased just \$13,841 or 5/10th of 1%. Excise taxes decreased \$39,729 or 4.4%.

In total, licenses and permits were up \$358,053 or 41.9% above the 2015 amount. These increases relate to permits and fees, which were up \$365,585 or 84.6%.

Business license revenues in 2016 were \$99,490 compared to \$116,133 in 2015.

In total, intergovernmental revenue increased \$85,936 or 14.4% above the 2015 revenue amount.

Total charges for services increased \$211,852 or 7.2%. Planning fees increased \$287,602 from last year.

Fines and forfeitures decreased \$92,897 below the 2015 amount. Rents and concessions decreased for a 2016 loss of \$49,462. Most other revenues were consistent with calendar year 2015.

In 2016, total expenditures decreased \$622,390 or 3.9% below the 2015 amount. The general government expenditures decreased \$59,626. Within the general government function, the following increases (decreases) from the prior year occurred:

- Legislative/Executive - \$59,090 or 9.4% decrease due to funded unstaffed positions.
- Administrative services - \$122,095 or 19.5% increase in professional services.
- Property management - \$74,989 or 11.7% decrease related maintaining budgeted staffing levels.

Judicial costs decreased \$70,625 or 8.6%.

Police expenditures decreased \$496,014 or 5.7% and is primarily related to vacancies of funded positions.

Finally, the culture and recreation costs were \$90,110 or 2.7% less than the prior year.

Street Construction Fund – During 2016, this fund recognized \$1,251,816 in revenues, primarily intergovernmental revenue. Intergovernmental revenue was \$822,731 or 68.4% below the 2015 amount. This fund expended \$1.2 million for construction projects or approximately \$3.3 million less than in 2015.

This fund reported ending fund balance of \$577,030 or an increase of \$442,659 above the December 31, 2015 amount.

Capital Improvements Fund – In 2016, the City recognized \$128,426 in various revenue sources. This fund expended \$197,228 during 2016. The general fund transferred in \$273,162 to this fund to finance capital improvement expenditures. At December 31, 2016, the City reported a fund balance of \$1,126,764 as compared to a \$912,404 balance at December 31, 2015.

Budgetary Highlights – General Fund

The General Fund's revenue budget was amended upward in calendar year 2016 by \$100,000. This adjustment primarily was to increases in Charges for Services revenue budgets.

In total, revenues were below budget by \$1,171,324. No one revenue source or program contributed to this shortfall.

Taxes were \$288,027 below budget. The majority of this short-fall is attributable to property, utility and excise taxes.

License and permits were \$17,650 below the final budget. Permits and fees were above budget in 2016.

Recreation fees were below the budget by \$262,147.

In total, the City realized 93.9% 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 \$1,445,837 or 9.5%.

Finally, the culture and recreation was under spent by \$405,159 or 12.5 because of lower costs at the City's aquatic center and public safety was under spent by \$943,047 primarily due to unstaffed funded positions.

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, 2016 was a 4.7% decrease for governmental activities and a 3.2% increase for business-type activities. The overall increase was 1/10th of 1% 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	
	2016	2015	2016	2015	2016	2016
Nondepreciable assets:						
Land	\$ 1,855,003	\$ 1,855,003	\$ 2,128,469	\$ 2,128,469	\$ 3,983,472	\$ 3,983,472
Construction in progress	1,607,755	2,794,508	1,616,982	433,569	3,224,737	3,228,077
Total nondepreciable assets	3,462,758	4,649,511	3,745,451	2,562,038	7,208,209	7,211,549
Depreciable assets:						
Buildings	13,341,967	13,341,967	2,744,174	2,744,174	16,086,141	16,086,141
Improvements	1,545,086	1,545,086	21,168	21,168	1,566,254	1,566,254
Machinery and equipment	6,003,386	5,928,244	586,088	586,088	6,589,474	6,514,332
Infrastructure	33,759,821	32,047,694	51,613,599	50,728,200	85,373,420	82,775,894
Intangibles	-	-	3,985,191	3,459,909	3,985,191	3,459,909
Total depreciable assets	54,650,260	52,862,991	58,950,220	57,539,539	113,600,480	110,402,530
Less accumulated depreciation	31,285,736	29,354,182	20,528,538	19,225,499	51,814,274	48,579,681
Book value - depreciable assets	23,364,524	23,508,809	38,421,682	38,314,040	61,786,206	61,822,849
Percentage depreciated	57%	56%	35%	33%	46%	44%
Book value - all assets	\$ 26,827,282	\$ 28,158,320	\$ 42,167,133	\$ 40,876,078	\$ 68,994,415	\$ 69,034,398

At December 31, 2016, the depreciable capital assets for governmental activities were 57% depreciated compared to the December 31, 2015 percentage of 56%.

At December 31, 2016, the major projects included in the governmental activities construction in progress include:

- Main Street Construction and Design: \$1,374,165
- Street Lights for Town Center: \$98,002



Governmental activities infrastructure increased approximately \$1.5 million consisting primarily of:

- 227th Street Sidewalk: \$221,392
- Lakeview Trail: \$273,773
- Lakeview Drive Overlay Ballinger: \$304,973
- Street Lights for Town Center/Arbor Village: \$110,639
- Lakeview Drive Overlay: \$672,689

With the City's business-type activities, 33% of the asset values were depreciated at December 31, 2016, as compared to 32% at December 31, 2015. Again, a positive indicator.

At December 31, 2016, the major projects included in the business-type activities construction in progress include:

- 44th & 224th Construction: \$1,144,935
- Main Street: \$304,673

Business-type activities infrastructure increased approximately \$1.4 million consisting primarily of:

- 44th – 45th Water, Sewer and Stormwater Improvements: \$730,294
- Edmonds Waste Water Treatment Plant: \$525,282

**Long-Term Liabilities**

The following table reports outstanding long-term liabilities at both December 31, 2016 and 2015.

Outstanding Borrowings

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 1,685,000	\$ 2,095,000	\$ -	\$ -	\$ 1,685,000	\$ 2,095,000
Revenue bonds - net	-	-	15,854,566	16,636,788	15,854,566	16,636,788
Public works trust fund loan	60,000	90,000	577,301	676,284	637,301	766,284
OPEB	4,077,271	3,418,375	-	-	4,077,271	3,418,375
Pension Liability	4,493,565	4,044,240	796,716	701,963	5,290,281	4,746,203
Compensated absences	760,817	799,644	97,531	103,397	858,348	903,041
Total	<u>\$ 11,076,653</u>	<u>\$ 10,447,259</u>	<u>\$ 17,326,114</u>	<u>\$ 18,118,432</u>	<u>\$ 28,402,767</u>	<u>\$ 28,565,691</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.



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

2016 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.

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 2016 increased by a little over \$21 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, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents (Note 3-A)	\$ 842,806	\$ 739,730	\$ 1,582,536
Investments (Note 3-A)	3,591,994	3,252,261	6,844,255
Receivables:			
Accounts	173,744	1,098,965	1,272,709
Taxes	1,396,371	-	1,396,371
Intergovernmental	728,209	63,359	791,568
Internal balances	408,808	(408,808)	-
Prepayments	10,336	-	10,336
Inventory	26,228	-	26,228
Total Current Assets	7,178,496	4,745,507	11,924,003
Noncurrent Assets			
Investment in joint venture	551,506	-	551,506
Restricted assets: cash and cash equivalents	-	1,257,850	1,257,850
Restricted assets: investments	-	2,610,512	2,610,512
Net pension Asset	979,353	-	979,353
Capital assets (Note 3-D)			
Nondepreciable	3,462,758	3,745,451	7,208,209
Depreciable, net	23,364,524	38,421,682	61,786,206
Total Noncurrent Assets	28,358,141	46,035,495	74,393,636
Total Assets	35,536,638	50,781,002	86,317,639
Deferred Outflow of Resources			
Related to Pensions	1,117,723	149,578	1,267,301
Total Deferred Outflow of Resources	1,117,723	149,578	1,267,301
Total Assets and Deferred Outflow of Resources	36,654,361	50,930,580	87,584,941
Liabilities			
Current Liabilities			
Accounts payable	1,008,244	822,228	1,830,472
Wages payable	328,801	46,595	375,396
Intergovernmental payable	240,497	37,393	277,890
Deposits payable	41,234	-	41,234
Compensated absences payable	152,163	19,507	171,670
Unearned revenue	-	-	-
Public trust fund loan payable	-	98,984	98,984
Limited tax general obligation bonds payable	240,000	-	240,000
General obligation refunding bonds payable	130,000	-	130,000
Revenue bonds payable	-	715,001	715,001
Public works board loan payable	30,000	-	30,000
Total Current Liabilities	2,170,939	1,739,708	3,910,647
Long-Term Liabilities (net of current portion): (Note 3-F)			
Compensated absences payable	608,654	78,023	686,677
Net pension liability	4,493,565	796,716	5,290,281
Intergovernmental payable	-	-	-
Other postemployment benefits payable (Note 3-J)	4,077,271	-	4,077,271
Public trust fund loan payable	-	478,317	478,317
Limited tax general obligation bonds payable	780,000	-	780,000
General obligation refunding bonds payable	535,000	-	535,000
Revenue bonds payable	-	15,139,565	15,139,565
Public works board loan payable	30,000	-	30,000
Total Long-term Liabilities	10,524,490	16,492,621	27,017,111
Total Liabilities	12,695,429	18,232,329	30,927,757
Deferred Inflow of Resources			
Related to pension	323,024	45,049	368,073
Total Deferred Inflow of Resources	323,024	45,049	368,073
Total Liabilities and Deferred Inflow of Resources	13,018,453	18,277,378	31,295,831
Net Position			
Net investment in capital assets (Note 3-J)	26,102,282	28,345,778	54,448,060
Restricted for:			
Capital projects	1,602,572	2,610,512	4,213,084
Debt service	12,721	1,257,850	1,270,571
Tourism	25,650	-	25,650
Housing inspections	276,864	-	276,864
Street maintenance	211,880	-	211,880
Unrestricted	(4,596,061)	439,062	(4,156,999)
Total Net Position	\$ 23,635,908	\$ 32,653,202	\$ 56,289,110

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Activities
For the Year Ended December 31, 2016

Function/Program	Expenses	Charges for Services and Sales	Program Revenues Operating Grants, Contributions and Interest	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General government	\$ 2,656,049	\$ 1,642,918	\$ 525,480	\$ -	\$ (487,651)	\$ -	\$ (487,651)
Judicial	754,222	228,084	-	-	(526,138)	-	(526,138)
Public safety	9,420,880	459,091	-	-	(8,961,789)	-	(8,961,789)
Physical environment	801,795	533,171	-	-	(268,624)	-	(268,624)
Transportation	2,396,893	-	477,159	827,112	(1,092,622)	-	(1,092,622)
Economic environment	248,003	564,166	-	-	316,163	-	316,163
Culture and recreation	3,298,236	2,135,173	-	-	(1,163,063)	-	(1,163,063)
Interest	64,726	-	-	-	(64,726)	-	(64,726)
Total Governmental Activities	19,640,804	5,562,603	1,002,639	827,112	(12,248,450)	-	(12,248,450)
Business-Type Activities:							
Sewer Utility	3,182,053	3,907,713	-	-	-	725,660	725,660
Water Utility	3,596,990	3,404,345	-	36,700	-	(155,945)	(155,945)
Storm Water Utility	1,943,029	1,825,211	10,150	11,310	-	(96,358)	(96,358)
Total Business-Type Activities	8,722,072	9,137,269	10,150	48,010	-	473,357	473,357
Total - Primary Government	\$ 28,362,876	\$ 14,699,872	\$ 1,012,789	\$ 875,122	(12,248,450)	473,357	(11,775,093)
General Revenues							
Property taxes levied for:							
General government purposes					4,561,069	-	4,561,069
Sales taxes					2,313,209	-	2,313,209
Utility taxes					3,020,835	-	3,020,835
Excise taxes					871,199	-	871,199
Real estate excise taxes					832,108	-	832,108
Other taxes					452,950	-	452,950
Gain on disposition of capital assets					30,616	584	31,200
Investment earnings					50,519	74,783	125,302
Miscellaneous					196,436	-	196,436
Total General Revenues					12,328,941	75,367	12,404,308
Change in Net Position					80,491	548,724	629,215
Net Position Beginning of Year					23,509,476	32,104,478	55,613,954
Prior Period Adjustment					45,941	0	45,941
Net Position End of Year					\$ 23,635,908	\$ 32,653,202	\$ 56,289,111

See accompanying notes to the basic financial statements

Balance Sheet
Governmental Funds
December 31, 2016

	General	Street Construction	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 282,105	\$ 99,870	\$ 210,582	\$ 115,581	\$ 708,138
Investments	1,105,539	440,896	934,442	511,928	2,992,805
Receivables:					
Accounts	163,920	-	3,828	5,996	173,744
Taxes	1,227,977	33,733	-	134,661	1,396,371
Intergovernmental	159,546	567,470	-	-	727,016
Prepayments	10,336	-	-	-	10,336
Inventory	26,228	-	-	-	26,228
Total Assets	\$ 2,975,651	\$ 1,141,969	\$ 1,148,852	\$ 768,166	\$ 6,034,638
Liabilities					
Accounts payable	\$ 380,680	\$ 557,481	\$ 20,566	\$ 35,609	\$ 994,336
Wages payable	303,040	7,456	1,495	10,879	322,870
Intergovernmental payable	239,988	2	27	20	240,037
Deposits payable	41,234	-	-	-	41,234
Total Liabilities	964,942	564,939	22,088	46,508	1,598,477
Deferred Inflow of Resources					
- Property Taxes	116,606	-	-	5	116,611
Total Liabilities and Deferred Inflow of Resources	1,081,548	564,939	22,088	46,513	1,715,088
Fund Balances					
Nonspendable	10,336	-	-	-	10,336
Restricted	-	577,030	831,004	721,653	2,129,687
Committed	-	-	-	-	-
Assigned	1,510,036	-	295,760	-	1,805,796
Unassigned	373,731	-	-	-	373,731
Total Fund Balances	1,894,103	577,030	1,126,764	721,653	4,319,550
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,975,651	\$ 1,141,969	\$ 1,148,852	\$ 768,166	\$ 6,034,638

See accompanying notes to the basic financial statements

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City of Mountlake Terrace, Washington
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2016

Total Governmental Fund Balances	\$	4,319,550
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**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	\$	53,671,728	
Less accumulated depreciation		(28,994,325)	24,677,403

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.	551,506
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes.	116,611
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Deferred Inflows and outflows for pensions reported on the government-wide statement of position but not reported on the governmental fund balance sheet.	786,197
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The net pension assets are not available to retire current year expenditures, therefore	979,353
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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.	2,771,030
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The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.	408,808
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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	\$	(1,020,000)	
General obligation refunding bonds payable		(665,000)	
Local loans payable			
Public works board loan payable		(60,000)	
Other postemployment benefits payable		(4,077,271)	
Intergovernmental payable		-	
Net Pension Liability Payable		(4,399,927)	
Compensated absences payable (excludes internal service fund)		(752,352)	(10,974,550)

Net Position Of Governmental Activities	\$	23,635,908
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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, 2016

	General	Street Construction	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 10,891,386	\$ -	\$ -	\$ 1,159,983	\$ 12,051,369
Intergovernmental	681,263	822,731	-	353,580	1,857,574
Licenses and permits	1,212,415	-	-	-	1,212,415
Charges for services	3,138,357	429,085	51,800	104,086	3,723,328
Fines and forfeitures	228,084	-	-	-	228,084
Investment earnings	23,747	-	4,621	5,591	33,959
Rent and leases	204,720	-	10,610	-	215,330
Miscellaneous	115,357	-	15,454	5,947	136,758
Total Revenues	16,495,329	1,251,816	82,485	1,629,187	19,458,817
Expenditures					
Current:					
General government	1,834,530	-	66,644	-	1,901,174
Judicial	754,222	-	-	-	754,222
Public safety	8,158,133	-	89,141	-	8,247,274
Physical environment	837,994	-	-	-	837,994
Economic environment	383,107	-	-	1,808	384,915
Culture and recreation	3,232,354	-	-	20,439	3,252,793
Transportation	-	162,030	-	929,545	1,091,575
Capital Outlay	-	1,243,138	41,443	-	1,284,581
Debt Service:					
Principal retirement	-	-	-	440,000	440,000
Interest and fiscal charges	-	-	-	64,726	64,726
Total Expenditures	15,200,340	1,405,168	197,228	1,456,518	18,259,254
(Deficiency) of Revenues (Under) Expenditures	1,294,989	(153,352)	(114,743)	172,669	1,199,563
Other Financing Sources (Uses)					
Transfers in	-	600,000	283,162	599,507	1,482,669
Transfers out	(882,669)	-	-	(600,000)	(1,482,669)
Total Other Financing Sources (Uses)	(882,669)	600,000	283,162	(493)	-
Net Change in Fund Balances	412,320	446,648	168,419	172,176	1,199,563
Fund Balances Beginning of Year	1,481,783	130,382	912,404	549,477	3,074,046
Prior Period Adjustment			45,941		45,941
Fund Balances End of Year	\$ 1,894,103	\$ 577,030	\$ 1,126,764	\$ 721,653	\$ 4,319,550

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, 2016

Net Changes In Fund Balances - Total Governmental Funds		\$ 1,199,563
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	\$ (1,681,968)
	Capital outlay	1,284,581
	Capital Contributions	127,960
	Less amount of capital outlay not capitalized	<u>(856,350)</u>
		(1,125,777)
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 @ 12/31/16	\$ 116,611
	Deferred @ 12/31/15	<u>(100,051)</u>
		16,560
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.		(114,498)
Elimination of transfers between governmental funds:		
	Transfers in	\$ (1,707,669)
	Transfers out	<u>1,707,669</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.		(85,325)
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		62,228
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.		440,000
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.		(658,896)
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.		-
Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet		317,292
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 @ 12/31/16	\$ (752,352)
	Liability @ 12/31/15	<u>781,696</u>
		29,344
Change In Net Position of Governmental Activities		<u>\$ 80,491</u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace, Washington
Statement of Net Position
Proprietary Funds
December 31, 2016

	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	\$ 411,005	\$ 253,537	\$ 75,188	\$ 739,730	\$ 134,668
Investments	1,814,447	1,113,987	323,827	3,252,261	599,189
Receivables:					
Accounts	499,898	351,424	247,643	1,098,965	-
Intergovernmental	-	53,209	10,150	63,359	1,193
Total Current Assets	2,725,350	1,772,157	656,808	5,154,315	735,050
Noncurrent Assets:					
Restricted assets: cash and cash equivalents	76,404	585,062	596,384	1,257,850	-
Restricted assets: investments	-	1,031,720	1,578,792	2,610,512	-
Capital assets:					
Nondepreciable	667,703	2,231,305	846,443	3,745,451	200,989
Depreciable, net	8,515,747	19,060,794	10,845,141	38,421,682	1,948,890
Total Noncurrent Assets	9,259,854	22,908,881	13,866,760	46,035,495	2,149,879
Deferred Outflow of Resources	43,863	40,085	65,630	149,578	15,533
Total Assets and Deferred Outflow of Resources	12,029,067	24,721,123	14,589,198	51,339,388	2,900,462
Liabilities					
Current Liabilities:					
Accounts Payable	286,745	516,894	18,589	822,228	14,368
Wages and benefits payable	14,202	16,332	16,061	46,595	5,931
Compensated absences payable	5,243	8,506	5,758	19,507	1,693
Intergovernmental payable	8,992	25,616	2,785	37,393	-
Public works trust fund loan payable	-	98,984	-	98,984	-
Revenue bonds payable	44,167	325,691	345,143	715,001	-
Total Current Liabilities	359,349	992,023	388,336	1,739,708	21,992
Long-Term Liabilities: (net of current portion)					
Public works trust fund loan payable	-	478,317	-	478,317	-
Revenue bonds payable	789,354	7,130,667	7,219,544	15,139,565	-
Compensated absences payable	20,972	34,020	23,031	78,023	6,772
Net pension liability	264,430	241,644	290,642	796,716	93,638
Total Long-term Liabilities	1,074,756	7,884,648	7,533,217	16,492,621	100,410
Deferred Inflow of Resources	16,041	17,947	11,061	45,049	7,031
Total Liabilities and Deferred Inflow of Resources	1,450,146	8,894,618	7,932,614	18,277,378	129,433
Net Position					
Net investment in capital assets	8,349,929	14,290,160	5,705,689	28,345,778	2,149,879
Restricted for capital projects	-	1,031,720	1,578,792	2,610,512	-
Restricted for debt service	76,404	585,062	596,384	1,257,850	-
Unrestricted	2,152,588	(80,437)	(1,224,281)	847,870	621,150
Total Net Position	\$ 10,578,921	\$ 15,826,505	\$ 6,656,584	33,062,010	\$ 2,771,029
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.				(408,808)	
Adjusted Total Net Position				\$ 32,653,202	

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, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Operating Revenues					
Charges for services	\$ 3,907,713	\$ 3,404,345	\$ 1,825,211	\$ 9,137,269	\$ 625,609
Operating Expenses					
Operations and maintenance	2,844,948	2,694,295	1,337,352	6,876,595	395,700
Depreciation	291,149	658,099	353,790	1,303,038	345,850
Total Operating Expenses	<u>3,136,097</u>	<u>3,352,394</u>	<u>1,691,142</u>	<u>8,179,633</u>	<u>741,550</u>
Operating Income (Loss)	<u>771,616</u>	<u>51,951</u>	<u>134,069</u>	<u>957,636</u>	<u>(115,941)</u>
Non-Operating Revenues (Expenses)					
Intergovernmental	-	-	10,150	10,150	-
Interest and fiscal charges	(31,580)	(227,009)	(221,622)	(480,211)	-
Gain on disposition of capital assets	-	584	-	584	30,616
Investment earnings	8,871	36,703	29,209	74,783	-
Miscellaneous revenue	-	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(22,709)</u>	<u>(189,722)</u>	<u>(182,263)</u>	<u>(394,694)</u>	<u>30,616</u>
Income (Loss) Before Contributions	<u>748,907</u>	<u>(137,771)</u>	<u>(48,194)</u>	<u>562,942</u>	<u>(85,325)</u>
Contributions	<u>-</u>	<u>36,700</u>	<u>11,310</u>	<u>48,010</u>	<u>-</u>
Change in Net Position	<u>748,907</u>	<u>(101,071)</u>	<u>(36,884)</u>	<u>610,952</u>	<u>(85,325)</u>
Net Position Beginning 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>
Restatement of Beginning Net Position	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Position Beginning of Year as Restated	<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>
Net Position End of Year	<u>\$ 10,578,921</u>	<u>\$ 15,826,505</u>	<u>\$ 6,656,584</u>	<u>\$ 33,062,010</u>	<u>\$ 2,771,029</u>
Reconciliation of the fund level operating statement to the government-wide statement of activities:					
Change in net position	\$ 748,907	\$ (101,071)	\$ (36,884)	\$ 610,952	
Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	<u>(14,376)</u>	<u>(17,587)</u>	<u>(30,265)</u>	<u>(62,228)</u>	
Adjusted Change in Net Position	<u>\$ 734,531</u>	<u>\$ (118,658)</u>	<u>\$ (67,149)</u>	<u>\$ 548,724</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, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Increase (Decrease) in Cash and Cash Equivalents					
Cash Flows from Operating Activities					
Cash received from customers	\$ 3,776,053	\$ 3,350,691	\$ 1,812,823	\$ 8,939,567	\$ 2,296
Cash received from interfund services provided	-	-	-	-	642,464
Cash payments to employees for services	(342,814)	(517,609)	(476,746)	(1,337,169)	(170,692)
Cash payments for goods and services	(2,516,391)	(1,924,539)	(866,330)	(5,307,260)	(277,269)
Net Cash Provided by (Used in) Operating Activities	916,848	908,543	469,747	2,295,138	196,799
Cash Flows from Capital and Related Financing Activities					
Proceeds from disposition of capital assets	-	584	-	584	41,236
Proceeds from capital grants	-	-	10,150	10,150	-
Principal paid on revenue bonds	(42,500)	(318,378)	(339,122)	(700,000)	-
Interest paid on revenue bonds	(33,604)	(266,065)	(257,386)	(557,055)	-
Bond issue costs paid on revenue bonds	(121)	(986)	(1,069)	(2,176)	-
Principal paid on public works trust fund loan	-	(98,984)	-	(98,984)	-
Interest paid on public trust fund loan	-	(3,381)	-	(3,381)	-
Payments for capital acquisitions	(1,147,690)	(1,181,690)	(215,768)	(2,545,148)	(151,208)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,223,915)	(1,868,900)	(803,195)	(3,896,010)	(109,972)
Cash Flows from Investing Activities					
Purchase of investment securities	(1,009,321)	(1,193,591)	(1,058,369)	(3,261,281)	-
Proceeds from sale and maturities of investment securities	1,108,497	2,101,641	1,274,802	4,484,940	(452,549)
Investment earnings	11,759	36,703	31,862	80,324	330,711
Net Cash Provided by (Used in) Investing Activities	110,935	944,753	248,295	1,303,983	(121,838)
Net Increase (Decrease) in Cash and Cash Equivalents	(196,132)	(15,604)	(85,153)	(296,889)	(35,011)
Cash and Cash Equivalents Beginning of Year	683,541	854,203	756,725	2,294,469	169,679
Cash and Cash Equivalents End of Year	\$ 487,409	\$ 838,599	\$ 671,572	\$ 1,997,580	\$ 134,668

(Continued)

City of Mountlake Terrace, Washington
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

(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)	\$ 771,616	\$ 51,951	\$ 134,069	\$ 957,636	\$ (115,941)
Adjustments:					
Depreciation	291,149	658,099	353,790	1,303,038	345,850
(Increase) Decrease in Assets:					
Accounts receivable	(131,660)	(53,654)	(16,203)	(201,517)	-
Intergovernmental receivable	-	-	3,815	3,815	19,151
Increase (Decrease) in Liabilities:					
Accounts payable	(61,649)	338,103	6,197	282,651	-
Intergovernmental payable	1,571	12,274	62	13,907	(3,741)
Compensated absences payable	45,821	(98,230)	(11,983)	(64,392)	(48,520)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 916,848</u>	<u>\$ 908,543</u>	<u>\$ 469,747</u>	<u>\$ 2,295,138</u>	<u>\$ 196,799</u>
Schedule of Non-Cash Capital and Related Financing Activities					
Capital assets contributed by private developers	\$ -	\$ 36,700	\$ 11,310	\$ 48,010	\$ -
Increase (decrease) in fair value of investments	9,358	(756)	(2,651)	5,951	-
Total Non-Cash Activities	<u>\$ 9,358</u>	<u>\$ 35,944</u>	<u>\$ 8,659</u>	<u>\$ 53,961</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, 2016

	Pension Trust	Agency
Assets		
Cash and cash equivalents	\$ 1,033	\$ 993,603
Investments	-	3,000,000
Total Assets	<u>1,033</u>	<u>\$ 3,993,603</u>
Liabilities		
Deposits payable	-	624,536
Checks payable		48,064
Intergovernmental payable	-	3,321,003
Total Liabilities	<u>-</u>	<u>\$ 3,993,603</u>
Net Position		
Held in trust for pension benefits	<u>\$ 1,033</u>	

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Position Beginning of Year	\$ 1,033	\$ 1,033
Net Position End of Year	<u>\$ 1,033</u>	<u>\$ 1,033</u>

See accompanying notes to the basic financial statements

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 unit 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 Directors 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.

During the third special session of the 2015 Washington state legislative session the legislature passed and the governor signed 2ESSB 5987 which became effective July 15, 2015, as chapter 44 Laws of 2015 3rd special Session. Chapter 44 Laws of 2015 3rd special Session sections 301 through 307 authorizes a city to assume the rights, powers, functions, immunities and obligations of a transportation benefit district that has coterminous with the boundaries of the city. Since the boundaries of the TBD are coterminous with the boundaries of the City of Mountlake Terrace, on October 3, 2016 the Mountlake Terraced City Council passed ordinance 2690 assuming the rights powers, immunities, functions and obligations of the TBD effective midnight December 31, 2016.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, deferred outflows, liabilities and deferred inflows 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 2016, the City implemented GASB Statement No. 72, Fair Value Measurement and Application and GASB Statement No. 77, Tax Abatements.

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 once during 2016. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Investments are stated at fair value in accordance with GASB Statement No. 72 Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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 acquisition 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, 2016. 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-8 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 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-9 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-10 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 – Generally, fund balance represents the difference between the current assets plus deferred outflows and the current liabilities plus deferred inflows. 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 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-11 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-12 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-13 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-14 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

Investments Measured at Amortized Cost

As of December 31, 2016, the city held the following investments at amortized cost:

Type of Investment	City's own investments	Investments held by city as agent for others
Federal Agency Securities	\$ -	\$ 3,000,000
Total Investments	\$ -	\$ 3,000,000

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, 2016, the City held the following investments:

Investment Type	Weighted Average Maturity - Years	City's own investments	Investments held by city as an agent for others	Total
Federal Farm Credit Bank	3.1	\$ 2,462,029	\$ 1,000,000	\$ 3,462,029
FICO Strip	1.9	3,048,887		\$ 3,048,887
Federal Home Loan Bank	3.0	-	2,000,000	\$ 2,000,000
Federal Home Loan Mortgage Corporation	4.7	963,452		\$ 963,452
Federal National Mortgage Association	1.8	2,980,399		\$ 2,980,399
Total		\$ 9,454,767	\$ 3,000,000	\$ 12,454,767

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, 2016 are:

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

Note 3 - Detailed Notes on All Funds (Continued)

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 investments in the Federal Farm Credit Bank, Federal Home Loan Bank, and Federal National Mortgage Association (Fannie Mae), government-sponsored enterprises, which are not explicitly backed by the federal government, are 68% of the City’s total investment portfolio market value, respectively.

The city measures and reports city investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2016, the city had the following investments measured at fair value:

Investment Type	Fair Value	Quotes Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Federal Agency Securities	\$ 9,454,767	\$ -	\$ 9,454,767
Total Investments	\$ 9,454,767	\$ -	\$ 9,454,767

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, 2016, was as follows:

Governmental Activities: (including Internal Service fund):	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Nondepreciable capital assets:				
Land	\$ 1,855,003	\$ -	\$ -	\$ 1,855,003
Construction in progress	2,794,508	320,601	1,507,354	1,607,755
Total nondepreciable capital assets	4,649,511	320,601	1,507,354	3,462,758
Depreciable capital assets				
Buildings	13,341,967	-	-	13,341,967
Improvements other than buildings	1,545,086	-	-	1,545,086
Machinery and equipment	5,928,244	182,026	106,884	6,003,386
Infrastructure	32,047,694	1,712,127	-	33,759,821
Total depreciable capital assets	52,862,991	1,894,153	106,884	54,650,260
Total capital assets	57,512,502	2,214,754	1,614,238	58,113,018
Less accumulated depreciation for:				
Buildings	8,536,474	262,653	-	8,799,127
Improvements other than buildings	1,202,468	38,816	-	1,241,284
Machinery and equipment	3,611,922	413,363	96,264	3,929,021
Infrastructure	16,003,318	1,312,986	-	17,316,304
Total accumulated depreciation	29,354,182	2,027,818	96,264	31,285,736
Governmental activities capital assets, net	\$ 28,158,320	\$ 186,936	\$ 1,517,974	\$ 26,827,282

Note 3 - Detailed Notes on All Funds (Continued)

Business-Type Activities:	Beginning Balance 1/1/2016	Increases	Decreases	Ending Balance 12/31/2016
Nondepreciable capital assets:				
Land	\$ 2,128,469	\$ -	\$ -	\$ 2,128,469
Construction in progress	433,569	1,233,394	49,981	1,616,982
Total nondepreciable capital assets	<u>2,562,038</u>	<u>1,233,394</u>	<u>49,981</u>	<u>3,745,451</u>
Depreciable capital assets:				
Buildings	2,744,174	-	-	2,744,174
Improvements other than buildings	21,168	-	-	21,168
Machinery and equipment	586,088	-	-	586,088
Infrastructure	50,728,200	885,399	-	51,613,599
Intangibles	3,459,909	525,282	-	3,985,191
Total depreciable capital assets	<u>57,539,539</u>	<u>1,410,681</u>	<u>-</u>	<u>58,950,220</u>
Total capital assets	<u>60,101,577</u>	<u>2,644,075</u>	<u>49,981</u>	<u>62,695,671</u>
Less accumulated depreciation for:				
Buildings	996,644	85,579	-	1,082,223
Improvements other than buildings	19,978	250	-	20,228
Machinery and equipment	419,167	42,274	-	461,441
Infrastructure	16,716,988	1,070,090	-	17,787,078
Intangibles	1,072,722	104,846	-	1,177,568
Total accumulated depreciation	<u>19,225,499</u>	<u>1,303,039</u>	<u>-</u>	<u>20,528,538</u>
Business-type activities capital assets, net	<u>\$ 40,876,078</u>	<u>\$ 1,341,036</u>	<u>\$ 49,981</u>	<u>\$ 42,167,133</u>

Depreciation Expense by Function:

Governmental Activities	
General Government	\$ 34,100
Public Safety	201,709
Physical Environment	232,036
Transportation	1,321,377
Economic Environment	15,172
Culture and Recreation	<u>223,424</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,027,818</u>
Business-type Activities	
Sewer	\$ 291,149
Water	658,099
Storm Water	<u>353,790</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,303,038</u>

Note 3 - Detailed Notes on All Funds (Continued)

3-E. - Interfund Transfers

Interfund transfers for the year ended December 31, 2016, consisted of the following:

Transfers to	Transfers from:		
	General Fund	Nonmajor Governmental Funds	Total
Street Construction Fund	\$ -	\$ 600,000	600,000
Capital Improvements Fund	283,162	-	283,162
Nonmajor Governmental Funds	599,507	-	599,507
Total	<u>\$ 882,669</u>	<u>\$ 600,000</u>	<u>\$ 1,482,669</u>

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, 2016 follow:

Year	Principal	Interest	Total
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	110,000	4,576	114,576
2022	110,000	2,288	112,288
Total	<u>\$ 1,685,000</u>	<u>\$ 143,728</u>	<u>\$ 1,828,728</u>

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, 2016 follow:

Year	Principal	Interest	Total
2017	30,000	600	30,600
2018	30,000	300	30,300
Total	\$ 60,000	\$ 900	\$ 60,900

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, 2016 follow:

Year	Principal	Interest	Total
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	98,984	907	99,891
2022	82,383	412	82,794
Total	\$ 577,302	\$ 9,944	\$ 587,246

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, 2016 follow:

Year	Principal	Interest	Premium	Total
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	310,000	146,425	12,880	469,305
2022-2026	1,735,000	543,800	64,399	2,343,199
2027-2030	1,655,000	168,800	47,226	1,871,026
Total	\$ 4,825,000	\$ 1,559,525	\$ 176,025	\$ 6,560,550

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, 2016 follow:

Year	Principal	Interest	Premium	Total
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	240,000	102,750	18,213	360,963
2022-2026	1,320,000	400,800	91,066	1,811,866
2027-2031	1,530,000	190,650	91,066	1,811,716
2032	335,000	10,050	15,178	360,228
Total	\$ 4,325,000	\$ 1,181,650	\$ 288,375	\$ 5,795,025

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, 2016 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, 2016 follow:

Year	Principal	Interest	Premium	Total
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	265,000	189,350	25,565	479,915
2022-2026	1,475,000	793,800	127,824	2,396,624
2027-2031	1,800,000	474,000	127,824	2,401,824
2032-2034	1,260,000	102,000	76,694	1,438,694
Total	<u>\$ 5,780,000</u>	<u>\$ 2,391,100</u>	<u>\$ 460,167</u>	<u>\$ 8,631,267</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	\$ 570,539
Sick leave	249,730
Compensatory time	<u>38,077</u>
Total	<u><u>\$ 858,346</u></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, 2016 (includes internal service fund):

	Outstanding 1/1/2016	Additions	Reductions	Outstanding 12/31/2016	Amounts Due in One Year
Governmental Activities					
General obligation bonds	\$ 845,000	\$ -	\$ 180,000	\$ 665,000	\$ 130,000
Limited liability GO bond	1,250,000	-	230,000	1,020,000	240,000
Public works board loan	90,000	-	30,000	60,000	30,000
Intergovernmental Payable	-	-	-	-	-
Pension Liabilities	4,044,240	449,325	-	4,493,565	-
Compensated absences	799,644	365,482	404,309	760,817	152,163
OPEB	3,418,375	1,259,513	600,617	4,077,271	-
Total Governmental Activities	<u>\$ 10,447,259</u>	<u>2,074,320</u>	<u>\$ 1,444,926</u>	<u>\$ 11,076,653</u>	<u>\$ 552,163</u>
Business-Type Activities					
Public works trust fund loan	\$ 676,284	\$ -	\$ 98,983	\$ 577,301	\$ 98,984
Utility revenue bonds	15,630,000	-	699,999	14,930,001	715,001
Unamortized bond premium	1,006,788	-	82,223	924,565	56,658
Total loans and bonds	17,313,072	-	881,205	16,431,867	870,643
Pension Liabilities	701,963	94,753	-	796,716	-
Compensated absences	103,396	45,833	51,698	97,531	19,506
Total Business-Type Activities	<u>\$ 18,118,431</u>	<u>\$ 140,586</u>	<u>\$ 932,903</u>	<u>\$ 17,326,114</u>	<u>\$ 890,149</u>

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 was being retired from the transportation benefit district fund until it was transferred to the debt service fund effective December 31, 2016. 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, leasing the City facility identified as the Ballinger Clubhouse.

The minimum lease payments are as follows:

Year	Minimum Lease Payments
2017	18,000
2018	18,000
Total	<u>\$ 36,000</u>

Note 3 - Detailed Notes on All Funds (Continued)

3-H. 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 pension 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.

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 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 5,290,281
Pension assets	\$ 979,353
Deferred outflows of resources	\$ 1,267,301
Deferred inflows of resources	(\$ 368,073)
Pension expense/expenditures	\$ 391,568

State Sponsored Pension Plans

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The 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 CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Note 3 - Detailed Notes on All Funds (Continued)

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 2016 were as follows:

Note 3 - Detailed Notes on All Funds (Continued)

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

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

The city's actual contributions to the plan were \$11,713 for the year ended December 31, 2016.

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.

3 - Detailed Notes on All Funds (Continued)

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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

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

The city's actual contributions to the plan were \$326,018 for the year ended December 31, 2016.

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 I had no required employer or employee contributions for fiscal year 2016. 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

Note 3 - Detailed Notes on All Funds (Continued)

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 2016 were as follows:

LEOFF Plan 2		
Actual Contribution Rates:	Employer	Employee
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%

The city's actual contributions to the plan were \$136,795 for the year ended December 31, 2016.

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, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$332,063.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 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, 2016. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2016, 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.

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Note 3 - Detailed Notes on All Funds (Continued)

- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

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 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, 2016, 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%	

Note 3 - Detailed Notes on All Funds (Continued)

Sensitivity of the Net Pension Liability/(Asset)

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	\$ 2,976,289	\$ 2,468,107	\$ 2,030,786
PERS 2/3	5,196,130	2,822,174	(1,469,104)
LEOFF 1	(279,197)	(469,996)	(633,087)
LEOFF 2	1,428,377	(509,357)	(1,969,845)

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, 2016 the city reported a total pension liability of \$5,290,281 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 2,468,107
PERS 2/3	2,822,174
LEOFF 1	(469,996)
LEOFF 2	(509,357)

The amount of the asset reported above for LEOFF Plans 1 and 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 asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 2 Asset
Employer's proportionate share	(\$509,357)
State's proportionate share of the net pension asset associated with the employer	(332,063)
TOTAL	(841,420)

Note 3 - Detailed Notes on All Funds (Continued)

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	% 0.0486950	% 0.0459570	% (0.0027380)
PERS 2/3	0.0615440	0.0560520	(0.0054920)
LEOFF 1	0.0451300	0.0456180	0.0004880
LEOFF 2	0.0910980	0.0875740	(0.0035240)

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 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, 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 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with the update procedures use to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016 the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (16,474)
PERS 2/3	307,895
LEOFF 1	(65,678)
LEOFF 2	165,825
TOTAL	\$ 391,568

Note 3 - Detailed Notes on All Funds (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 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	\$ 62,143	\$0
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	\$ 129,341	\$ 0
TOTAL	\$ 191,484	\$ 0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 150,279	-\$ 93,165
Net difference between projected and actual investment earnings on pension plan investments	\$ 345,353	\$ 0
Changes of assumptions	\$ 29,169	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	-\$258,417
Contributions subsequent to the measurement date	\$161,257	\$ 0
TOTAL	\$686,058	-\$351,581

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	\$ 47,774	\$ 0
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	\$ 47,774	\$ 0

Note 3 - Detailed Notes on All Funds (Continued)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 69,796	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 183,032	\$ 0
Changes of assumptions	\$ 1,920	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 23,760	(\$ 16,492)
Contributions subsequent to the measurement date	\$ 63,476	\$ 0
TOTAL	\$ 341,984	(\$ 16,492)

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, 2017. 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	LEOFF 1	LEOFF 2
2017	\$ (15,301)	\$ (87,673)	\$ (9,873)	\$ (1,659)
2018	(15,301)	(87,673)	(9,873)	(1,659)
2019	57,072	195,720	41,376	152,065
2020	35,673	152,846	26,144	104,952
2021	-	-	-	8,319
Thereafter	-	-	-	-

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).

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 2016, 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, 2016 was \$8,218,884.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2016 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, 2016 is \$22,343,399. 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 2016) 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).

Note 3 - Detailed Notes on All Funds (Continued)

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:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Annual required contribution (ARC)	\$ 1,122,778	\$ 1,285,459
Interest on net pension obligation	136,735	104,282
Contributions made	(293,165)	(343,940)
Amortization of net OPEB obligation	<u>(307,452)</u>	<u>(234,481)</u>
Increase in net OPEB obligation	658,896	811,320
Net OPEB obligation beginning of year	<u>3,418,375</u>	<u>2,607,055</u>
Net OPEB obligation end of year	<u>\$ 4,077,271</u>	<u>\$ 3,418,375</u>

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.

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%

Note 3 - Detailed Notes on All Funds (Continued)

3-J. Net Position

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	\$ 10,336
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- **Restricted** – The following fund balances are legally restricted to specified purposes:

Street Construction Fund:

Street construction	\$ 577,030
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Capital Improvements Fund:

Park improvements	\$ 674,665
Cable improvements	156,339

Total Capital Improvements Fund:	\$ 831,004
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Nonmajor Governmental Funds:

Street improvements	\$ 211,880
Tourism promotion	25,650
Rental housing inspections	276,864
Debt service	12,721
Capital outlay	194,538

Total Nonmajor Governmental Funds:	\$ 721,653
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- **Committed** – The following fund balances are committed to specific purposes:

General Fund:

Accrued leave	54,256
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Total General Fund	\$ 54,256
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- **Assigned** – The following fund balances are assigned to specific purposes:

General Fund:

Working Capital	\$ 677,221
Catastrophic fluctuations	707,346
Service charge relief	\$ 71,213

Total General Fund:	\$ 1,455,780
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Note 3 - Detailed Notes on All Funds (Continued)

Net Investment in Capital Assets – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2016 are as follows:

	Governmental Activities	Business- type Activities
Net investment in capital assets:		
Total capital assets	\$ 58,113,018	\$ 62,695,671
Less accumulated depreciation	31,285,736	20,528,538
Net capital assets	26,827,282	42,167,133
Less capital related debt	725,000	15,507,302
Add unspent bond proceeds		2,610,512
Less unamortized bond premium	-	924,565
Net investment in capital assets	\$ 26,102,282	\$ 28,345,778

3-K. Tax Abatements

In 2016, tax abatements granted by the city related to multi-family property tax exemption program result in a tax abatement of \$73,990.

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 168 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 to \$300 million per occurrence subject to aggregates and sublimits. Automobile and physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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.

Note 4 - Other Notes (Continued)

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, 2016. 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, 2016, 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. In 2016, AWC Trust HCP purchased 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.

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.

Note 4 - Other Notes (Continued)

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, 2016, the City owned an equity interest in the SERS joint venture of \$194,841. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2016. 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.

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

Note 4 - Other Notes (Continued)

SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2016, the City of Mountlake Terrace owned an equity interest in the SNOCOM joint venture of \$356,665. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2016. 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:

Year	Budget	Amount	Percentage
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)

4-D. Encumbrance Commitments

As of December 31, 2016, 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	<u>70,000</u>
Total Major Governmental Funds	<u><u>\$ 70,000</u></u>

4-E. Subsequent Event

Alliance for Housing Affordability (AHA)

Effective July 1, 2017, the City of Mountlake Terrace will no longer be the Fiscal agent for the Alliance for Housing Affordability.

4-F. Prior Period Adjustments

Prior period adjustment in government wide financials under governmental activities is due to rental revenue owed to the city dating back to 2005 and not recorded on the financials until payment was received in 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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 11,179,413	\$ 11,179,413	\$ 10,891,386	\$ (288,027)
Licenses and permits	1,230,065	1,230,065	\$ 1,212,415	(17,650)
Intergovernmental	755,120	755,120	\$ 681,263	(73,857)
Charges for services	3,556,522	3,656,522	\$ 3,138,357	(518,165)
Fines and forfeitures	450,883	450,883	\$ 228,084	(222,799)
Rents and leases	234,280	234,280	\$ 204,720	(29,560)
Investment earnings	16,259	16,259	\$ 23,747	7,488
Miscellaneous	144,111	144,111	\$ 115,357	(28,754)
Total Revenues	17,566,653	17,666,653	16,495,329	(1,171,324)
Expenditures				16,495,329
Current:				
General government	1,718,023	1,818,023	1,834,530	(16,507)
Judicial	948,922	948,922	754,222	194,700
Public safety	9,101,180	9,101,180	8,158,133	943,047
Physical environment	770,336	770,336	837,994	(67,658)
Community development	370,203	370,203	383,107	(12,904)
Culture and recreation	3,637,513	3,637,513	3,232,354	405,159
Total Expenditures	16,546,177	16,646,177	15,200,340	1,445,837
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,020,476	1,020,476	1,294,989	274,513
Other Financing (Uses)				
Transfers out	(906,500)	(906,500)	(882,669)	23,831
Net Change in Fund Balances	\$ 113,976	\$ 113,976	412,320	\$ 298,344
Fund Balances Beginning of Year			1,481,783	
Fund Balances End of Year			\$ 1,894,103	
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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 1,937,697	\$ 1,111,180	\$ 822,731	\$ (288,449)
Charges for services	467,040	467,040	429,085	(37,955)
Investment earnings	20,836	20,836	-	(20,836)
Miscellaneous	-	-	-	-
Total Revenues	2,425,573	1,599,056	1,251,816	(347,240)
Expenditures				
Current				
Transportation	4,135,318	2,530,046	162,030	2,368,016
Capital Outlay	-	-	1,243,138	(1,243,138)
Total Expenditures	2,492,681	2,530,046	1,405,168	1,124,878
Excess (Deficiency) of Revenues Over (Under) Expenditures	(67,108)	(930,990)	(153,352)	777,638
Other Financing Sources				
Inception of intergovernmental loan	-	-	-	-
Transfers in	200,000	600,000	600,000	-
Other Financing Sources	200,000	600,000	600,000	-
Net Change in Fund Balances	\$ 132,892	\$ (330,990)	446,648	\$ 777,638
Fund Balances Beginning of Year			130,382	
Fund Balances End of Year			\$ 577,030	

See accompanying notes to the required supplementary information

City of Mountlake Terrace, Washington
Other Post-Employment Benefits
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
12/31/2015	-	14,292,230	0.0%	14,292,230	-	N/A
12/31/2016	-	12,483,481	0.0%	12,483,481	-	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, 2016
Last 2 Fiscal Years

		<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	%	0.0486950%	0.0459570%
Employer's proportionate share of the net pension liability	\$	2,547,201	2,468,107
Employer's covered employee payroll	\$	5,442,397	5,387,654
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	46.80%	45.81%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%

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, 2016
Last 2 Fiscal Years

		<u>2015</u>	<u>2016</u>
<u>Employer's proportion of the net pension liability (asset)</u>	%	0.0615440%	0.0560520%
<u>Employer's proportionate share of the net pension liability</u>	\$	2,199,002	2,822,174
<u>Employer's covered employee payroll</u>	\$	5,442,397	5,387,654
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	%	40.41%	52.38%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	%	89.20%	85.82%

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, 2016
Last 2 Fiscal Years

		<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	%	0.0451300%	0.0456180%
Employer's proportionate share of the net pension liability	\$	-543,916	-469,996
Employer's covered employee payroll	\$	0	0
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	%	127.36%	123.74%

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, 2016
Last 2 Fiscal Years

		<u>2015</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	%	0.0910980%	0.0875740%
Employer's proportionate share of the net pension liability (asset)	\$	-936,305	-509,357
State's proportionate share of the net pension liability (asset) associated with the employer	\$	-409,091	-405,618
TOTAL	\$	-1,345,396	-914,975
Employer's covered employee payroll	\$	2,675,611	2,637,757
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	34.99%	19.31%
Plan fiduciary net position as a percentage of the total pension liability	%	111.67%	106.04%

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
For the year ended December 31, 2016
Last 2 Fiscal Years

	<u>2015</u>	<u>2016</u>
<u>Statutorily or contractually required contributions</u>	\$ 307,048	337,731
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ <u>(307,048)</u>	<u>(337,731)</u>
<u>Contribution deficiency (excess)</u>	\$ <u>0</u>	<u>0</u>
<u>Covered employer payroll</u>	\$ 5,384,386	5,339,507
<u>Contributions as a percentage of covered employee payroll</u>	% 5.70%	6.33%

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
For the year ended December 31, 2016
Last 2 Fiscal Years

	<u>2015</u>	<u>2016</u>
<u>Statutorily or contractually required contributions</u>	\$ 307,048	337,731
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ <u>(307,048)</u>	<u>(337,731)</u>
<u>Contribution deficiency (excess)</u>	\$ <u>0</u>	<u>0</u>
<u>Covered employer payroll</u>	\$ 5,384,386	5,339,507
<u>Contributions as a percentage of covered employee payroll</u>	% 5.70%	6.33%

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
For the year ended December 31, 2016
Last 2 Fiscal Years

	<u>2015</u>	<u>2016</u>
<u>Statutorily or contractually required contributions</u>	\$ 136,795	128,727
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ <u>(136,795)</u>	<u>(128,727)</u>
<u>Contribution deficiency (excess)</u>	\$ <u>0</u>	<u>0</u>
<u>Covered employer payroll</u>	\$ 2,708,819	2,549,059
<u>Contributions as a percentage of covered employee payroll</u>	% 5.05%	5.05%

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

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	
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov