



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

**Financial Statements Audit Report**  
**City of Mukilteo**

**For the period January 1, 2017 through December 31, 2017**

**Published February 14, 2019**

**Report No. 1023181**





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

February 14, 2019

Mayor and City Council  
City of Mukilteo  
Mukilteo, Washington

**Report on Financial Statements**

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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**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 Mukilteo  
January 1, 2017 through December 31, 2017**

Mayor and City Council  
City of Mukilteo  
Mukilteo, 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 Mukilteo, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2019.

**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.

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.



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

## 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*.

## 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.



Pat McCarthy

State Auditor

Olympia, WA

January 28, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Mukilteo January 1, 2017 through December 31, 2017

Mayor and City Council  
City of Mukilteo  
Mukilteo, 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 Mukilteo, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 9.

### 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 Mukilteo, as of December 31, 2017, 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 9 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 January 28, 2019 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

January 28, 2019

## **FINANCIAL SECTION**

### **City of Mukilteo January 1, 2017 through December 31, 2017**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

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#### **BASIC FINANCIAL STATEMENTS**

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Statement of Activities – 2017

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Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
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Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
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Statement of Net Position – Proprietary Funds – 2017

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#### **REQUIRED SUPPLEMENTARY INFORMATION**

Condition Assessment and Preservation of Infrastructure Eligible for Modified  
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Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual  
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Schedule of Funding Progress of Other Post-Employment Benefits – 2017

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,  
LEOFF 2 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2017

## **Management's Discussion and Analysis**

Within this section of the City of Mukilteo, Washington's ("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, 2017. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, note disclosures, and required supplemental information following this section.

### **Financial Highlights**

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$199,226,591 (net position) for the calendar year reported.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$187,096,401 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets, and grant money received in advance related to capital projects.
  - (2) \$4,179,419 of net position is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$7,950,771 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 \$9,601,503 this year. This compares to the prior year ending fund balance of \$10,609,086 showing a decrease of \$1,007,583 or 9.50% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$1,194,784 or 6.58% of total General Fund expenditures.
- Overall, the financial condition of the City remains stable.

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's 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 and liabilities, deferred inflows and outflows, 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, public safety, transportation, natural and economic environment, and culture and recreation. Business-type activities include surface 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.

### **Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. 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.

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 general government, public safety, transportation, natural and economic environment, and culture and recreation. However, the focus is 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 Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to assist in understanding the differences between these two perspectives.

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

**Fiduciary fund** type represents funds held in trust, this includes an agency fund.

### **Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to acquire a full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplementary Information

This section includes the budgetary schedules for the General Fund. Also included is a Condition Assessment for infrastructure accounted for using the modified approach, a Schedule of Funding Progress for other post-employment benefits of LEOFF I retirees, and two schedules related to pension obligations - Schedule of Proportionate Share of Net Pension Liability and Schedule of Employer Contributions.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### Statement of Net Position

The City's net position at calendar year-end was \$199,226,591. The following table provides a summary of the City's net position:

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets:</b>						
Current assets	\$ 14,217,320	\$ 15,370,524	\$ 2,915,237	\$ 1,778,261	\$ 17,132,557	\$ 17,148,785
Noncurrent assets						
Pension	2,406,606	1,066,758	-	-	2,406,606	1,066,758
Other	594,340	551,632	-	-	594,340	551,632
Capital	191,265,533	180,972,249	4,252,869	4,491,392	195,518,402	185,463,641
<b>Total assets</b>	<b>208,483,799</b>	<b>197,961,163</b>	<b>7,168,106</b>	<b>6,269,653</b>	<b>215,651,905</b>	<b>204,230,816</b>
<b>Deferred Outflows:</b>						
Pension	795,856	1,373,204	41,128	71,699	836,984	1,444,903
<b>Total deferred outflows</b>	<b>795,856</b>	<b>1,373,204</b>	<b>41,128</b>	<b>71,699</b>	<b>836,984</b>	<b>1,444,903</b>
<b>Liabilities:</b>						
Current liabilities	1,443,053	1,404,768	98,480	129,049	1,541,533	1,533,817
Long-term liabilities	13,462,876	14,369,708	232,200	298,460	13,695,076	14,668,168
<b>Total liabilities</b>	<b>14,905,929</b>	<b>15,774,476</b>	<b>330,680</b>	<b>427,509</b>	<b>15,236,609</b>	<b>16,201,985</b>
<b>Deferred Inflows:</b>						
Pension	1,063,817	55,074	63,604	12,474	1,127,421	67,548
Grants received in advance	775,000	775,000	-	-	775,000	775,000
Refunded debt	123,268	-	-	-	123,268	-
<b>Total deferred inflows</b>	<b>1,962,085</b>	<b>830,074</b>	<b>63,604</b>	<b>12,474</b>	<b>2,025,689</b>	<b>842,548</b>
<b>Net position:</b>						
Net investment in capital assets	182,843,532	172,421,748	4,252,869	4,491,392	187,096,401	176,913,140
Restricted	4,179,419	4,712,812	-	-	4,179,419	4,712,812
Unrestricted	5,388,690	5,595,257	2,562,081	1,409,977	7,950,771	7,005,234
<b>Total net position</b>	<b>\$ 192,411,641</b>	<b>\$ 182,729,817</b>	<b>\$ 6,814,950</b>	<b>\$ 5,901,369</b>	<b>\$ 199,226,591</b>	<b>\$ 188,631,186</b>

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 9.85 to 1 at December 31, 2017. The current ratio for the business-type activities at December 31, 2017 is 29.60 to 1. For the City overall, the current ratio is 11.11 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$9,681,824 for governmental activities and increased by \$913,581 for business-type activities. The City's overall financial position increased during calendar year 2017 by \$10,595,405.



Note that 95.03% of the governmental activities' net position is tied up in capital, such as land, building, and infrastructure. The City uses these capital assets to provide services to its citizens. In business-type activities, the City reports 62.40% of its net position as its capital investment. Capital assets in the business-type activities provide surface water services and generate revenues for this fund. Overall, 93.91% of the City's total net position is included in capital assets.

### Change in Net Position

The following table provides a summary of the City's changes in net position for the years ended December 31, 2017 and 2016:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program:						
Charges for services	\$ 3,975,151	\$ 3,754,646	\$ 2,829,705	\$ 2,397,269	\$ 6,804,856	\$ 6,151,915
Operating grants and contributions	1,312,592	1,245,968	-	-	1,312,592	1,245,968
Capital grants	559,248	241,908	8,294	240,844	567,542	482,752
General:						
Property taxes	6,898,350	6,758,342	-	-	6,898,350	6,758,342
Sales taxes	3,281,608	3,026,360	-	-	3,281,608	3,026,360
Other taxes	4,197,123	5,119,124	-	-	4,197,123	5,119,124
Other (net)	11,152,933	100,686	3,542	-	11,156,475	100,686
Total revenues	31,377,005	20,247,034	2,841,541	2,638,113	34,218,546	22,885,147
Program Expenses:						
General government	4,226,234	3,573,082	-	-	4,226,234	3,573,082
Public safety	10,803,269	10,348,943	-	-	10,803,269	10,348,943
Transportation	1,864,384	1,592,286	-	-	1,864,384	1,592,286
Natural and economic environment	1,332,458	1,410,463	-	-	1,332,458	1,410,463
Culture and recreation	2,670,636	2,561,585	-	-	2,670,636	2,561,585
Interest on long-term debt	827,288	363,963	-	-	827,288	363,963
Surface water management	-	-	1,898,872	2,088,180	1,898,872	2,088,180
Total expenses	21,724,269	19,850,322	1,898,872	2,088,180	23,623,141	21,938,502
Revenues over (under) expenses	9,652,736	396,712	942,669	549,933	10,595,405	946,645
Transfers in (out)	29,088	12,460	(29,088)	(12,460)	-	-
Change in net position	9,681,824	409,172	913,581	537,473	10,595,405	946,645
Beginning net position	182,729,817	182,320,645	5,901,369	5,363,896	188,631,186	187,684,541
Ending net position	\$ 192,411,641	\$ 182,729,817	\$ 6,814,950	\$ 5,901,369	\$ 199,226,591	\$ 188,631,186

### Governmental Activities Analysis

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. Property taxes received in 2017 were \$140,008 more than 2016, a 2.07% change. From 2016 to 2017, the assessed taxable valuation of an average residential property increased by 8.8%. Sales taxes increased \$255,248 over 2016 or 8.43%. The economy continues to strengthen 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.

In total, taxes make up 45.82% of the total revenues stream as compared to 73.61% in 2016. The large decrease is related to Tank Farm land donated to the city in 2017, which was valued at \$10,895,700.

The operating grants of \$497,284 for general government programs included the following:

- Liquor Board Taxes from the State of Washington: \$177,891
- Liquor Excise Tax from the State of Washington: \$104,127
- PUD Privilege Tax from Snohomish County PUD: \$114,766
- Private grant \$500

The primary sources of other governmental operating grants are the City's share of the State's Motor Vehicle Fuel Tax of \$456,159 and the City's share of the state's LEOFF 1 pension funding of \$173,504.

Contributions – not specific to function is related to the donated Tank Farm land, which was valued at \$10,895,700. This land is intended to be used as part of the Downtown Waterfront Project.

The City reported investment interest earned in the amount of \$164,413 as compared to \$22,927 in 2016, due to maturities of investment bonds.

Note that program revenues cover 73.09% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 26.91% of the governmental expenses. As a result, the general economy and the success of City businesses have a significant impact on the City's revenue streams.

### Governmental Functional Expenses

#### Total cost of services

The City's governmental activities functions were consistent from 2016 to 2017. Net costs of services of the City's governmental activities functions were consistent with prior year.

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.

	<b>Governmental Activities</b>			
	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
General government	\$ 4,226,234	\$ 3,573,082	\$ 2,085,676	\$ 1,251,600
Public safety	10,803,269	10,348,943	9,668,911	9,344,992
Transportation	1,864,384	1,592,286	522,501	904,744
Natural and economic environment	1,332,458	1,410,463	1,332,458	1,366,576
Culture and recreation	2,670,636	2,561,585	1,440,444	1,375,925
Interest on long-term debt	827,288	363,963	827,288	363,963
Total	<u>\$ 21,724,269</u>	<u>\$ 19,850,322</u>	<u>\$ 15,877,278</u>	<u>\$ 14,607,800</u>

### Business-Type Activities Analysis

The City maintains a single enterprise fund, for surface water activities. In this fiscal year, operating revenues were \$2,829,705 and operating expenses were \$1,898,872, resulting in an operating gain of \$930,833.

Revenues from charges for services increased \$432,436 or 18.04% greater in 2017 than 2016. This increase was anticipated and is in line with a multi-year rate increase plan that was adopted by the City Council in 2015.

Operations and maintenance costs decreased \$180,569 or 10.03% below the 2016 amount. Depreciation expense decreased \$8,738 or 3.03% in 2017 as compared to 2016. In this year, the Surface Water Fund transferred \$29,088 of resources to other funds. At December 31, 2017, net position totaled \$6,814,950. Of this amount, \$4,252,869 or 62.40% is restricted for 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 \$9,601,503 as compared to the amount of \$10,609,086 at December 31, 2016.

The restricted amount at December 31, 2017 was \$4,800,769, relating primarily to capital improvements.

The committed amount of \$1,153,649 is primarily for a contingency reserve of \$1 million.

The assigned fund balance of \$2,450,592 is set aside for operating reserves in the General Fund.

**The General Fund** – The General Fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. This fund combines previously separate special revenue funds: Recreation and Cultural Services, Emergency Medical Services, Street, Drug Enforcement, and Hotel/Motel Lodging Tax. The General Fund's fund balance decreased by \$204,492 or 3.77% in 2017. In calendar year 2016, the fund balance decreased \$339,344 or 5.94%.

Total revenues increased \$323,350 or 1.83% in 2017, which is largely related to increased taxes in the amount of \$344,757 or 2.72%.

Total licenses and permits were down \$119,335 or 8.22% below the 2016 amount, due to a decrease in the value of construction permits. Although only five less permits were issued in 2017 than 2016, the project values totaled less than half.

Total charges for services increased from 2016 to 2017. This can be attributed to an increase in permitting fees received from the development of a new gas station. Fines and forfeitures decreased based on a reduction in civil and criminal infraction revenues.

In 2017, total expenditures increased \$539,345 or 3.06% above the 2016 amount. The general government expenditures decreased \$43,596 or 0.98%.

In addition to the General Fund, the City reported two other major funds: Debt Service Fund and Capital Projects Fund.

**Debt Service Fund** – This fund accounts for activity related to long term governmental obligations. In February 2017 the City issued \$7,980,000 in limited tax general obligation (LTGO) refunding bonds to partially advance refund a portion, \$7,365,000, of the total outstanding LTGO Bonds for the Rosehill Community Center. The net proceeds of \$7,908,131.55, after payment of \$69,000 in debt issuance costs, were used to purchase securities.

The securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the advance refunded 2009 LTGO Bonds.

**Capital Projects Fund** – This fund combines five separate funds related to capital projects; Park Acquisition and Development, Transportation Impact Fee, Real Estate Excise Tax I, Real Estate Excise Tax II, and Municipal Facilities.

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants.

Charges for Services in the Capital Projects Fund include park mitigation and street mitigation fees. Mitigation fees have increased from \$62,089 to \$300,020 because of an increase in the amount of new construction projects that are required to pay these fees.

Other capital projects are financed mainly through revenue the City receives from excise taxes levied on the sale of real estate within the City and may only be used to fund capital projects. During 2017, the City recognized real estate excise tax collected in the amount of \$1,257,312 as compared to \$2,216,722 in 2016 due to a decrease in the number of residential homes being sold and no large commercial sales as compared to 2016.

In 2017 capital outlay projects totaled \$989,820, while non-capital maintenance and other costs totaled \$813,728. Ending fund balance in 2017 is \$4,382,427. Capital outlay increased from 2016 primarily related to the Harbour Reach Extension project and the Waterfront Promenade project.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund had no revenue budget amendments for 2017. In total, the City realized 100.49% of estimated revenues.

Total tax revenue was \$50,861 greater than the budget. Property tax revenue was \$10,557 below the final budget, sales tax revenue was \$191,608 greater than the final budget, and other taxes and assessments were \$130,190 below the final budget.

With regard to General Fund expenditure budget, it was amended upward \$308,666 or 1.72%. This is primarily related to facilities maintenance charges and equipment rental charges paid by the General Fund.

The public safety budget was underspent by \$176,101 or 1.74%. The natural and economic environment was underspent by \$325,986 or 19.81%, the culture and recreation budget was overspent by \$77,351 or 5.20% and the general government budget was overspent by \$239,409 or 5.72%, primarily related to a lower than anticipated rate of vacancy savings.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

##### **Capital Assets**

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2017 was a 6.044% increase for governmental activities and a 5.311% decrease for business-type activities. The overall increase was 5.756% for the City as a whole. See the notes to the financial statements 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 for the years ended December 31, 2017 and 2016.

	Governmental Activities		Business Activities		Total	
	2017	2016	2017	2016	2017	2016
Nondepreciable assets:						
Land	\$ 43,286,843	\$ 32,385,845	\$ 150,000	\$ 150,000	\$ 43,436,843	\$ 32,535,845
Right of way	10,615,041	10,615,041	2,989	-	10,618,030	10,615,041
Art collections	287,624	287,624	-	-	287,624	287,624
Construction in progress	2,385,031	1,431,761	235,823	203,770	2,620,854	1,635,531
Total nondepreciable assets	56,574,539	44,720,271	388,812	353,770	56,963,351	45,074,041
Depreciable assets:						
Buildings	27,942,823	27,942,823	-	-	27,942,823	27,942,823
Other improvements	9,994,494	9,994,494	7,820,244	7,816,677	17,814,738	17,811,171
Machinery and equipment	10,071,932	9,818,251	258,975	258,975	10,330,907	10,077,226
Infrastructure	265,040,536	265,040,536	-	-	265,040,536	265,040,536
Total depreciable assets	313,049,785	312,796,104	8,079,219	8,075,652	321,129,004	320,871,756
Less accumulated depreciation	178,358,791	176,544,126	4,215,162	3,938,030	182,573,953	180,482,156
Book value - depreciable assets	134,690,994	136,251,978	3,864,057	4,137,622	138,555,051	140,389,600
Percentage depreciated	57%	56%	52%	49%	57%	56%
Book value - all assets	\$ 191,265,533	\$ 180,972,249	\$ 4,252,869	\$ 4,491,392	\$ 195,518,402	\$ 185,463,641

At December 31, 2017, the depreciable capital assets for governmental activities were 57% depreciated, which is consistent with capital assets as of December 31, 2016.

#### Governmental Activities

The increase to the construction in progress consisted primarily of:

- SR526 Bike-Pedestrian Path to Boeing Project
- Harbour Reach Extension Project
- Harbour Pointe Blvd. Widening Project
- Waterfront Promenade Design

The increase in the value of land is due to donation of properties related to the Tank Farm project, which were valued at \$10,895,700.

#### Business Activities

The increase to the construction in progress consisted primarily of:

- 61<sup>st</sup> Street Culvert Replacement Project
- 61<sup>st</sup> Street Retaining Wall Project
- New Decant Facility Project

Additional information on capital assets can be found in Note 5 following the basic financial statements.

## Long-Term Debt

The following table reports outstanding long-term debt at both December 31, 2017 and 2016.

	Outstanding Obligations					
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 9,050,000	\$ 9,105,000	\$ -	\$ -	\$ 9,050,000	\$ 9,105,000
Compensated absences	1,160,915	952,975	83,221	59,863	1,244,136	1,012,838
Pension obligation	2,745,918	3,568,519	148,979	238,597	2,894,897	3,807,116
Other post-employment benefits	280,913	271,481	-	-	280,913	271,481
Total	<u>\$ 13,237,746</u>	<u>\$ 13,897,975</u>	<u>\$ 232,200</u>	<u>\$ 298,460</u>	<u>\$ 13,469,946</u>	<u>\$ 14,196,435</u>

The general obligation bonds are reported gross (unamortized bond premium is not included). The City did a partial advanced refunding on its outstanding general obligation bonds. \$7,365,000 was defeased in-substance, and \$7,980,000 of new bonds was issued. Principal and interest was paid on both obligations in 2017. Annual principal and interest payments are made from funding provided by the Capital Projects Fund.

Additional information on long-term liabilities can be found in notes 10 and 12 following the basic financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2018 budget is a continuation of Mayor Jennifer Gregerson's plan to maintain high service delivery levels without increases in taxes or fees. The budget emphasizes working with the resources that we have. As it stands now, Mukilteo is in good economic shape. Homes values are rising and unemployment is low. The City continues to spend to keep its infrastructure in good shape.

Standard & Poor's most recent rating was in October 2015. The City received an AAA rating. Standard & Poor's identified our credit strengths below as the basis for our bond rating.

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level;
- Very strong liquidity, with total governmental available cash of 45% of total governmental fund expenditures and access to external liquidity we consider strong;

Much time will be spent in 2018 to analyze potential revenue options, set priorities, and enhance our long-range financial plan; all while looking to the long term health, public safety, and viability of our City.

**Keeping our City on solid ground** has been and will continue to be a subject of discussion by Council, staff, and citizens. This discussion centers on four areas: the City's Comprehensive Plan, maintaining our infrastructure through capital improvement program and plan development, keeping our community safe, and updating the City's Long-Range Financial Plan.

Under Mayor Gregerson's leadership, the City's broad goal is to be **A Sustainable, Well-Run City with Safe, and Strong Neighborhoods** with the following components:

- **Budget efficiently and effectively** to align with our priorities
- Support **diversity in our community**
- **Plan well and look forward to the future** in decision making
- Ensure residents are **safe** in our homes and neighborhoods
- **Empower** city employees to collaborate, support and serve
- Provide high quality two-way **communications** with residents and encourage full **participation** in City government
- Manage **appropriate growth** that minimizes environmental impact and uses land efficiently
- Improve **accessibility and mobility** to destinations throughout our community
- Ensure **access to quality recreation & cultural** facilities and services for residents of all ages
- Support local businesses to ensure a **healthy economy**

The 2018 budget plan recognizes that 2017 provided a reason for the City to continue its optimism for the recovery of the economy. The magnitude of the recent economic downturn resulted in a budget balancing strategy that included the use of carefully managed expenditures, anticipated revenue increases, and the prudent use of fund reserves.

#### **2018 Budget Overview**

Budgeted revenues and transfers in for all funds total \$46 million. Total budgeted expenditures and transfers out total \$48.5 million.

Exceeding the minimum fund balance set by policy, the budget includes an estimated ending balance in the General Fund of \$3,538,326 which equals 24% of 2018 General Fund expenditures and transfers out.

#### **Requests for Information**

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 Finance Director: City of Mukilteo, 11930 Cyrus Way, Mukilteo, WA 98275, 425-263-8030.

**Statement of Net Position**  
December 31, 2017

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,750,513	\$ 2,482,198	\$ 9,232,711
Investments	5,399,850	-	5,399,850
Receivables (net of allowance for uncollectible)	394,768	429,349	824,117
Grants receivable	466,754	3,690	470,444
Taxes receivable	1,203,576	-	1,203,576
Prepays	1,859	-	1,859
Noncurrent assets:			
Investment in joint ventures	594,340	-	594,340
Net pension asset	2,406,606	-	2,406,606
Capital assets not being depreciated:			
Land	43,286,843	150,000	43,436,843
Right of way easements	10,615,041	2,989	10,618,030
Art collections	287,624	-	287,624
Construction in progress	2,385,031	235,823	2,620,854
Capital assets, (net of accumulated depreciation):			
Buildings	20,539,270	-	20,539,270
Other improvements	4,939,133	3,804,118	8,743,251
Machinery and equipment	3,772,751	59,939	3,832,690
Infrastructure	105,439,840	-	105,439,840
Total Assets	<u>208,483,799</u>	<u>7,168,106</u>	<u>215,651,905</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Pension obligation	795,856	41,128	836,984
Total deferred outflows of resources	<u>795,856</u>	<u>41,128</u>	<u>836,984</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	660,746	60,903	721,649
Accrued wages	583,350	37,577	620,927
Deposits payable	198,957	-	198,957
Unearned revenue	201,397	-	201,397
Noncurrent liabilities:			
Due within one year	682,058	1,447	683,505
Due in more than one year	12,579,421	230,753	12,810,174
Total Liabilities	<u>14,905,929</u>	<u>330,680</u>	<u>15,236,609</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Pension obligation	1,063,817	63,604	1,127,421
Grants received in advance	775,000	-	775,000
Deferred inflows - debt	123,268	-	123,268
Total deferred inflows of resources	<u>1,962,085</u>	<u>63,604</u>	<u>2,025,689</u>
<b>NET POSITION</b>			
Net investment in capital assets	182,843,532	4,252,869	187,096,401
Restricted for:			
Capital	3,607,427	-	3,607,427
Reserves	160,151	-	160,151
Other purposes	411,841	-	411,841
Unrestricted	5,388,690	2,562,081	7,950,771
Total Net Position	<u>\$ 192,411,641</u>	<u>\$ 6,814,950</u>	<u>\$ 199,226,591</u>

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





**Statement of Activities**  
For the year ended December 31, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Functions/Programs:</b>						
Primary government:						
Governmental activities:						
General government	\$ 4,226,234	\$ 1,643,274	\$ 497,284	\$ -	\$ (2,085,676)	\$ (2,085,676)
Public safety	10,803,269	813,655	320,703	-	(9,668,911)	(9,668,911)
Transportation	1,864,384	309,812	480,734	551,337	(522,501)	(522,501)
Natural and economic environment	1,332,458	-	-	-	(1,332,458)	(1,332,458)
Culture and recreation	2,670,636	1,208,410	13,871	7,911	(1,440,444)	(1,440,444)
Interest on long-term debt	827,288	-	-	-	(827,288)	(827,288)
Total governmental activities:	21,724,269	3,975,151	1,312,592	559,248	(15,877,278)	(15,877,278)
Business-type activities:						
Surface water	1,898,872	2,829,705	-	8,294	-	939,127
Total business-type activities:	1,898,872	2,829,705	-	8,294	-	939,127
Total primary government	\$ 23,623,141	\$ 6,804,856	\$ 1,312,592	\$ 567,542	(15,877,278)	(14,938,151)
General revenues:						
Property taxes					6,898,350	6,898,350
Sales taxes					3,281,608	3,281,608
Other taxes					4,197,123	4,197,123
Contributions - not restricted by function					10,895,700	10,895,700
Interest earnings					164,413	164,413
Miscellaneous revenue					92,820	96,362
Transfers					29,088	(29,088)
Total general revenues and transfers					25,559,102	25,533,556
Change in net position					9,681,824	10,595,405
Net position - beginning					182,729,817	188,631,186
Net position - ending					\$ 192,411,641	\$ 199,226,591

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

**Balance Sheet**  
**Governmental Funds**  
December 31, 2017

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,776,542	\$ 3,171	\$ 3,930,135	\$ 5,709,848
Investments	3,454,021	-	968,041	4,422,062
Receivables (net of allowance for uncollectible)	382,393	-	12,375	394,768
Grants receivable	2,371	-	464,383	466,754
Taxes receivable	1,070,608	-	132,968	1,203,576
Restricted investments	-	-	-	-
Prepaid items	1,709	150	-	1,859
Total assets	<u>6,687,644</u>	<u>3,321</u>	<u>5,507,902</u>	<u>12,198,867</u>
<b>LIABILITIES</b>				
Accounts payable	281,117	-	333,237	614,354
Accrued wages	573,182	-	-	573,182
Deposits payable	198,957	-	-	198,957
Unearned revenue	201,397	-	-	201,397
Total liabilities	<u>1,254,653</u>	<u>-</u>	<u>333,237</u>	<u>1,587,890</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable revenue - receivables	217,236	-	17,238	234,474
Grants received in advance	-	-	775,000	775,000
Total deferred inflows	<u>217,236</u>	<u>-</u>	<u>792,238</u>	<u>1,009,474</u>
<b>FUND BALANCES</b>				
Nonspendable	\$ 1,709	\$ -	\$ -	\$ 1,709
Restricted	415,021	3,321	4,382,427	4,800,769
Committed	1,153,649	-	-	1,153,649
Assigned	2,450,592	-	-	2,450,592
Unassigned	1,194,784	-	-	1,194,784
Total fund balances	<u>\$ 5,215,755</u>	<u>\$ 3,321</u>	<u>\$ 4,382,427</u>	<u>\$ 9,601,503</u>

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	187,861,902
Other long-term assets are not available to pay for current period expenditures and therefore, are not reported in the funds.	594,340
Other items related to pension activity that are not financial resources and therefore, are not reported in the funds.	2,140,401
Deferred inflows related to unearned revenue that are not available in the current period and therefore, are not reported in the funds.	234,474
Deferred inflows related to refunding of general obligation bonds that are not financial resources and therefore, are not reported in the funds.	(123,268)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(13,215,585)
Internal service funds are used by management to charge the costs of certain activities, such as facilities maintenance, facility renewal, and equipment repair, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	5,317,874
Net position of governmental activities	<u>\$ 192,411,641</u>

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



**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
For the year ended December 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 6,810,443	\$ -	\$ -	\$ 6,810,443
Sales taxes	3,281,608	-	-	3,281,608
Other taxes and assessments	2,939,810	-	1,257,312	4,197,122
Licenses and permits	1,332,142	-	-	1,332,142
Intergovernmental	1,139,848	-	541,377	1,681,225
Charges for services	1,015,720	-	300,020	1,315,740
Fines and forfeitures	136,508	-	-	136,508
Rents and leases	1,148,520	-	-	1,148,520
Interest earnings	134,350	-	14,746	149,096
Contributions and donations	14,550	-	-	14,550
Miscellaneous revenues	87,123	-	-	87,123
Total revenues	<u>18,040,622</u>	<u>-</u>	<u>2,113,455</u>	<u>20,154,077</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,424,117	-	-	4,424,117
Public safety	9,942,770	-	-	9,942,770
Transportation	789,239	-	813,728	1,602,967
Natural and economic environment	1,319,249	-	-	1,319,249
Culture and recreation	1,565,026	-	-	1,565,026
Debt service:				
Principal	-	670,000	-	670,000
Interest and other debt costs	-	215,456	-	215,456
Capital outlay:				
Capital outlay	117,215	-	989,820	1,107,035
Total expenditures	<u>18,157,616</u>	<u>885,456</u>	<u>1,803,548</u>	<u>20,846,620</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(116,994)</u>	<u>(885,456)</u>	<u>309,907</u>	<u>(692,543)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	308,010	884,913	60,000	1,252,923
Transfers out	(395,508)	-	(1,175,323)	(1,570,831)
Refunding bonds issued	-	7,980,000	-	7,980,000
Payment to refunded bond escrow agent	-	(7,977,132)	-	(7,977,132)
Total other financing sources (uses)	<u>(87,498)</u>	<u>887,781</u>	<u>(1,115,323)</u>	<u>(315,040)</u>
Net change in fund balances	(204,492)	2,325	(805,416)	(1,007,583)
Fund balances - beginning	5,420,247	996	5,187,843	10,609,086
Fund balances - ending	<u>\$ 5,215,755</u>	<u>\$ 3,321</u>	<u>\$ 4,382,427</u>	<u>\$ 9,601,503</u>

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



**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities**  
For the year ended December 31, 2017

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

Net changes in fund balances for governmental funds	\$ (1,007,583)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	9,959,484
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Capital outlays	1,107,035
Donated assets	10,903,611
Other capital asset activity	(117,660)
Depreciation	(1,871,583)
Gain (Loss) on disposal of assets	(61,919)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	128,500
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Bonds payable	55,000
Unamortized bond premium	196,768
Deferred inflow related to refunded debt	(123,268)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	183,419
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Investment in joint ventures	42,707
Deferred inflows	140,712

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.	358,646
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Compensated absences	(206,806)
Pension obligation	574,884
Post employment benefit obligation	(9,432)

Internal service funds are used by management to charge the costs of certain activities, such as facility maintenance, facility renewal and equipment repair to individual funds. The net (revenue) expense of certain activities of internal service funds is reported with governmental activities.	59,358
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Change in net position of governmental activities	<u>\$ 9,681,824</u>
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The notes to the financial statements are an integral part of this statement.



**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2017

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Fund</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,482,198	\$ 1,040,665
Investments	-	977,788
Receivables (net of allowance for uncollectible)	429,349	-
Grants receivable	3,690	-
Total current assets	<u>2,915,237</u>	<u>2,018,453</u>
Noncurrent assets:		
Capital assets:		
Land	150,000	-
Right of way easements	2,989	-
Art collections	-	8,799
Construction in progress	235,823	-
Buildings	-	7,569
Other Improvements	3,804,118	321,554
Machinery and equipment	59,939	3,065,709
Total noncurrent assets	<u>4,252,869</u>	<u>3,403,631</u>
Total assets	<u>7,168,106</u>	<u>5,422,084</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Pension obligation	41,128	7,278
Total deferred outflows	<u>41,128</u>	<u>7,278</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	60,903	46,391
Accrued wages	37,577	10,168
Total current liabilities	<u>98,480</u>	<u>56,559</u>
Noncurrent liabilities		
Due within one year	1,447	357
Due in more than one year	230,753	45,537
Total noncurrent liabilities	<u>232,200</u>	<u>45,894</u>
Total liabilities	<u>330,680</u>	<u>102,453</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Pension obligation	63,604	9,035
Total deferred inflows	<u>63,604</u>	<u>9,035</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,252,869	3,403,631
Unrestricted	2,562,081	1,914,243
Total net position	<u>\$ 6,814,950</u>	<u>\$ 5,317,874</u>

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



**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
For the year ended December 31, 2017

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Fund</b>	<b>Internal Service Funds</b>
Operating revenues:		
Charges for services	\$ 2,829,705	\$ 873,844
Total operating revenues	<u>2,829,705</u>	<u>873,844</u>
Operating expenses:		
Operations and maintenance	1,618,877	801,357
Depreciation	<u>279,995</u>	<u>451,713</u>
Total operating expenses	<u>1,898,872</u>	<u>1,253,070</u>
Operating income (loss)	<u>930,833</u>	<u>(379,226)</u>
Non-operating revenues (expenses):		
Intergovernmental	8,294	64,500
Interest earnings	-	15,315
Gain(loss) on disposal of asset	-	(110)
Other non-operating	<u>3,542</u>	<u>11,883</u>
Total non-operating revenue (expenses)	<u>11,836</u>	<u>91,588</u>
Income before capital contributions and transfers	942,669	(287,638)
Transfers in	-	346,996
Transfers out	<u>(29,088)</u>	<u>-</u>
Change in net position	913,581	59,358
Net position - beginning	<u>5,901,369</u>	<u>5,258,516</u>
Net position - ending	<u><u>\$ 6,814,950</u></u>	<u><u>\$ 5,317,874</u></u>

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



**Statement of Cash Flows**  
**Proprietary Funds**  
For the year ended December 31, 2017

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Fund</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from:		
Customers	\$ 2,972,331	\$ -
Interfund services provided	-	938,344
Other governments	-	-
Cash payments to:		
Suppliers for goods and services	(166,687)	(675,754)
Interfund services used	(239,657)	-
Employees	(1,088,925)	(264,227)
Other governments	(138,736)	-
Net cash provided by operating activities	<u>1,338,326</u>	<u>(1,637)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating subsidies and transfers from other funds	-	346,996
Operating subsidies and transfers to other funds	(29,088)	-
Net cash provided by (used for) noncapital financing activities	<u>(29,088)</u>	<u>346,996</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from:		
Interfund loans	-	-
Other governments	-	64,500
Capital contributions	-	-
Payments for:		
Interfund loans	-	-
Capital assets	(29,636)	(773,966)
Net cash (used for) capital related financing activities	<u>(29,636)</u>	<u>(709,466)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	-	15,315
Interest on investments	-	-
Net cash (used for) investing related activities	<u>-</u>	<u>15,315</u>
Net increase in cash and cash equivalents	1,279,602	(348,792)
Cash and cash equivalents at beginning of year	<u>1,202,596</u>	<u>2,367,245</u>
Cash and cash equivalents balance at end of year	<u>\$ 2,482,198</u>	<u>\$ 2,018,453</u>

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Fund</b>	<b>Internal Service Funds</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 930,833</u>	<u>\$ (379,226)</u>
Adjustments to reconcile operating income to net cash provided (used for) by operating activities:		
Depreciation	279,995	451,713
(Increase) in accounts receivable	142,626	43,898
Increase in accounts payable	(33,001)	(121,061)
Increase (decrease) in employee benefits	17,873	3,039
Net cash provided by (used for) operating activities	<u>\$ 1,338,326</u>	<u>\$ (1,637)</u>
Schedule of noncash capital, investing, and financing activities:		
Depreciation	(279,995)	(451,713)

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



**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
December 31, 2017

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 43,128
Total assets	<u>43,128</u>
LIABILITIES	
Liabilities payable from restricted assets	<u>43,128</u>
Total liabilities	<u>\$ 43,128</u>

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



## **Note 1: Summary of Significant Accounting Policies**

The financial statements of the City of Mukilteo have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

### **A. Reporting entity**

The City of Mukilteo is a municipal corporation which was incorporated on May 12, 1947 and operates as a non-charter code city with a Mayor-Council form of government under the provisions of Revised Code of Washington (RCW) 35A, et al. This form is commonly referred to as an “optional code city” that essentially enjoys all the rights and privileges granted to larger cities or charter cities. Legislative authority is vested in a seven-member City Council. Council members are elected by position number to four-year overlapping terms. Three to four council members are up for election every two years. The Council is composed of a president and vice-president who are elected by the Council for a one-year term each. The Mayor serves as the Chief Executive Officer and is elected to a four-year term by general election. The Mayor appoints the Management Services Director, with confirmation by the Council. The Management Services Director oversees all City operations and implements policy direction.

The City’s major operations include police protection, fire control, prevention and emergency medical response, parks and recreation, planning and zoning, transportation improvement, and general administrative services. In addition, the City owns and operates a surface water management system.

The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

### **B. Basis of presentation - government-wide and fund financial statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

The fund financial statements provide information about the government funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund includes activities related to: administration, finance, police, fire and emergency medical services, planning and community development, culture and recreation, parks maintenance, public works, and engineering management. The General Fund includes the following managerial funds: LEOFF Reserve Fund, City Reserve Fund, Transportation Benefit District Fund, Drug Enforcement Fund, Street Fund, Hotel/Motel Lodging Tax Fund, Recreation and Cultural Services Fund, Technology Replacement Fund, and the Emergency Medical Services Fund.

The **Debt Service Fund** is used to account for the accumulation of funds for the payment of principal and interest on long-term obligations of governmental funds. The fund receives transfers from the Capital Projects Fund to pay principal and interest on bonds that were originally issued in 2009 and partially advance refunded in 2017.

The **Capital Projects Fund** is used to account for financial resources used for the acquisition or construction of major capital projects, other than those financed by proprietary funds. Major categories of projects include roadways, pedestrian pathways, and parks. The Capital Projects Fund includes the following managerial funds: Park Acquisition and Development Fund, Transportation Impact Fee Fund, Real Estate Excise Tax I and II Funds, and the Municipal Facilities Fund.

The City reports the following enterprise fund:

The **Surface Water Fund** accounts for the revenues and expenses to operate and maintain the surface water management system. The principal operating revenues of the fund are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Surface Water Fund includes the following managerial funds: Surface Water Management Fund and Surface Water Reserve Fund.

Additionally, the City reports the following fund types:

**Internal Service Funds** are used to provide goods and services to other departments and funds on a cost reimbursement basis. The City maintains the following internal service funds:

The **Equipment Replacement Fund** finances the replacement, pursuant to a detailed equipment replacement schedule, of all capital equipment owned by the City. Funds are charged an annual fee set aside to replace capital equipment in the future.

The **Facilities Maintenance Fund** charges funds for expenditures related to the general operations and maintenance of City facilities.

The **Facility Renewal Fund** provides for the repairs and improvements of the City's six buildings.

**Fiduciary Funds** are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) private-purpose trust funds, (b) pension (and other employee benefit) trust funds, (c) investment trust funds, and (d) agency funds. The City reports one fiduciary/agency fund:

The **Treasurer's Suspense Fund** is used to report assets which are held in a custodial capacity for others. Fund assets do not belong to the City.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds.

While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. There were no such balances in the current year.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

As a general rule, the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **C. Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is not allocated to the various functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods and services provided by a given function or segment of the City, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing transactions.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

#### **D. Budgetary information**

1. Scope of Budget

Annual appropriated budgets are adopted at the fund level for general and special revenue funds, on the modified accrual basis of accounting. Although not required to be annually appropriated through the budget process, budgets for debt service and capital project funds are also adopted at the fund level based on the total of individual projects and are shown in the financial statements on an annual basis.

The required supplementary information contains original and final budget information for the general fund. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

Appropriations lapse at year-end. If unused appropriations are needed in the following year, they must be re-appropriated in the next year's operating budget. The City does not use encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation for subsequent expenditure.

2. Amending the Budget

The Mayor and Management Services Director are authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total appropriations of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than a simple majority after holding public hearings in accordance with state laws governing the budget amendment process.

3. Excess of Expenditures over Appropriations

There are no material violations of finance related to legal or contractual provisions in the General Fund or Capital Projects Fund. The Debt Service Fund did not account for all refunding transactions that took place in 2017 and therefore had revenues of \$7,957,000 and expenditures of \$7,954,675 greater than the final budget authority.

#### **E. Assets, liabilities, deferred outflows/inflows of resources, and fund balance/net position**

1. Cash and Cash Equivalents (Note 3)

The City pools cash resources of its various funds with the Washington State Local Government Investment Pool and Snohomish County Investment Pool in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements.

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and at the date of purchase, they have a maturity date no longer than three months.

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

2. Investments (Note 3)

It is the City's policy to invest all temporary cash surpluses. Investments for the government are reported at fair value (generally based on quoted market prices), except for the position in the Washington State Local Government Investment Pool, a qualified external investment pool reported at amortized cost, which approximates fair value. The change in the fair value of investments is recognized in the year in which the change occurred.

3. Receivables (Note 4)

Taxes receivable consist of taxes and related interest and penalties received after year end. Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services including amounts earned for which billings have not been prepared. Grants receivable consist of amounts due from grantors where the eligibility requirements have been met.

4. Inventory and Prepaid Items

Inventories are valued at the first in, first out (FIFO) method, which approximates the fair value. Inventories in governmental funds consist of expendable supplies held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets and Depreciation (Note 5)

Capital Assets are defined as land and artwork or historic collections of any value; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tools, with a value of \$5,000 or more for non-infrastructure or \$10,000 or more per item for infrastructure, and having a useful life exceeding one year from the date of acquisition. All non-infrastructure assets with a cost of \$5,000 or more, and infrastructure additions where individual items cost \$10,000 or more, will be capitalized.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The City has adopted the Modified Approach for streets and, as a result, infrastructure is treated as an inexhaustible capital asset, thereby eliminating the need for depreciation accounting. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets are capitalized as the projects are constructed.

Property, plant, and equipment of the City, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Life (Years)
Buildings and Improvements	5 – 100
Storm Drainage Systems	6 – 75
Street Systems	15 – 51
Park Facilities and Streetscape	30
Streetlights and Traffic Control Devices	40
Equipment	3 – 20
Furniture and Fixtures	3 – 20
Vehicles	3 – 30
Computers / Software	3

6. Unearned Revenue

Unearned revenue is a liability for resources obtained, that does not qualify for recognition as revenue, and therefore are not yet considered to be available. Unearned revenues presented in this manner on the accompanying financial statements are related to recreational deposits.

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, compensatory time, and sick leave. All vacation and compensatory time is accrued when incurred in the government-wide and proprietary fund financial statements.

Employees who work under the terms of a collective bargaining agreement should refer to their contract for information regarding vacation, compensatory time, and sick leave.

Non-represented full-time employees may not carry over more than two years' worth of accrued vacation to the next calendar year. Upon termination of employment, an employee will be paid for vacation accrued as of the date of the termination at their current rate of pay. In the event of a regular employee's death, compensation will be paid to the employee's designated beneficiary or to the employee's heirs or estate in accordance with state law. Non-represented employees who separate honorably from the City (e.g., voluntary resignation or disability or service retirement) may receive payment for unused accumulated sick leave in accordance with the Employee Handbook.

8. Pensions (Note 6)

For purposes of measuring the net pension asset or 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.

9. Long-Term Debt (Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing uses.

10. Deferred Inflows and Outflows of Resources

Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available. See Note 1, section E 8 above, as well as Note 6 for deferred inflows and outflows of resources related to pension activities.

11. Restricted Assets and Liabilities

Net position is segregated into three categories on the government-wide statement of net position: net investment in capital assets, restricted, and unrestricted. The flow assumption of the City is to use restricted assets before unrestricted assets. Restricted assets are usually set aside in a separate debt service or capital fund, specifically used for the purpose of debt service or capital replacement.

## 12. Fund Balances

Fund balances are reported in five classifications: nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balances are those not in a spendable form (such as inventories or long-term receivables) or subject to legal/contractual requirements to be maintained intact. Restricted fund balances are subject to limitations imposed by external sources such as creditors, grantors, laws or regulations. Committed fund balances are designated for specific purposes through formal action of the government's highest level of decision making authority (City Council). Assigned fund balances reflect the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is not restricted, committed, or assigned to a specific purpose within the General Fund.

Fund balances classified as committed can only be used for specific purposes as prescribed by the City Council via resolution. Modifications to committed funds must also be made by resolution. Assigned fund balances are also designated by action of the City Council.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. The order of use of unrestricted resources (committed, assigned, or unassigned) is subject to determination based on the nature and circumstances of the specific needs at the time and the funds involved.

The details of fund balance classifications as reported on the Balance Sheet – Governmental Funds are as follows for December 31, 2017:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable				
Prepaid items	\$ 1,709	\$ -	\$ -	\$ 1,709
Restricted				
Capital	-	-	4,382,427	4,382,427
Culture and recreation	3,600	-	-	3,600
Debt service	-	3,321	-	3,321
Natural environment	67,000	-	-	67,000
Public safety	59,093	-	-	59,093
Self insurance	6,730	-	-	6,730
Tourism	249,614	-	-	249,614
Transportation	28,985	-	-	28,985
Committed				
Culture and recreation	228	-	-	228
Contingency reserve	1,000,000	-	-	1,000,000
Employee benefits	21,666	-	-	21,666
Technology reserve	131,755	-	-	131,755
Assigned				
Operating reserve	2,450,591	-	-	2,450,591
Unassigned	1,194,784	-	-	1,194,784
Total fund balance	<u>\$ 5,215,755</u>	<u>\$ 3,321</u>	<u>\$ 4,382,427</u>	<u>\$ 9,601,503</u>

## Note 2: Stewardship, Compliance and Accountability

The City maintains the following reserves and minimum fund balance policies:

### General Fund:

- **Contingency Fund Reserve:** \$1,000,000 to provide a financial cushion to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods or to provide resources in the event of major unplanned expenditures the City could face as a result of natural disaster, for example.



- **General Fund Operating Reserves:** An amount equal to two months of General fund budgeted operating expenditures, to provide for adequate cash flow, budget contingencies, and insurance reserves.
- **Technology Replacement Reserves:** For the replacement of entity-wide computer hardware, software, or telephone equipment identified in the City's Technology Replacement listing. The required level of reserve is equivalent to each year's scheduled replacement costs.
- **Health Self-Insured Administration Reserves:** To provide Washington State mandated reserves for the City's self-insured dental and vision benefits for City employees; equivalent to 16 weeks of budgeted expenditures. The City's plan was inactive as of January 01, 2018 however a reserve was maintained at December 31, 2017 to cover any outstanding claims.
- **Hotel/Motel Lodging Tax Reserves:** The City maintains a Hotel/Motel Lodging Tax reserve fund in an amount equal to six months revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax fund is reported as restricted, as allowable expenditures are prescribed by state law.

**Equipment and Vehicle Replacement Reserves:** To provide for the replacement of vehicles and equipment identified in the City's equipment replacement listing. The required level of reserve in this internal service fund equals each year's scheduled replacement costs. Contributions are made through assessments to other funds calculated on a per asset basis.

**Surface Water Management Fund Reserves:** The City maintains an operating reserve within the Surface Water Management Fund, an enterprise fund, in an amount equal to no less than 20% of budgeted operating revenues.

### **Note 3: Deposits and Investments**

#### **Deposits**

##### Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository financial institution. In the event of a depository financial institutions failure, it is the risk that the City would not be able to recover its deposits or collateralized securities that are in the possession of outside parties.

The City minimizes custodial credit risk by adhering to restrictions set forth in state law. Statutes require cities to deposit funds in financial institutions that are physically located in Washington, unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected, if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At December 31, 2017, all of the City's deposits with financial institutions were insured or collateralized. The City's \$2,835,336 of deposits in financial institutions are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

#### **Investments**

It is the City's policy to invest all temporary cash surpluses. Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the Washington State Local Government Investment Pool.





The Washington Local Government Investment Pool (LGIP) was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The average weighted maturity of the LGIP will not exceed 90 days. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The City is a participant in the Snohomish County Investment Pool (SCIP), an external investment pool. The City reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The SCIP is not registered with the SEC. The SCIP investment policy is established by the Snohomish County Finance Committee consisting of the County Treasurer, County Executive and Chairperson of the County Council. The county external investment pool does not have a credit rating and had a weighted average maturity of 1.69 years as of December 31, 2017.

Provisions of debt agreements govern investments of debt proceeds held by bond fiscal agents. The Refunding Trustee receives the interest on the due dates of the maturing installments of SLGS securities, and makes payments in a timely manner to the Fiscal Agent of the amounts to be paid on the refunded and non-refunded bonds, both principal and interest.

#### Valuation of Investments

The City measures and reports 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: 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.

The State local government investment pool is reported at amortized cost which approximates fair value.

As of December 31, 2017 the City had the following investments measured at fair value:

Investment Type	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agency Securities	\$ 5,399,850	\$ -	\$ 5,399,850	\$ -
Snohomish County Local Investment Pool	5,711,156	-	5,711,156	-
Total investments	<u>\$ 11,111,006</u>	<u>\$ -</u>	<u>\$ 11,111,006</u>	<u>\$ -</u>

#### Interest Rate Risk

The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investments portfolio to three years or less. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. Reserve funds may be invested in securities maturing in more than five years if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds.

At December 31, 2017 the City had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b><u>Investment Maturities (In Years)</u></b>	
		<b>Less than 1</b>	<b>1 to 5</b>
U.S. Government Agency Securities	\$ 5,399,850	\$ -	\$ 5,399,850
Snohomish County Local Investment Pool	5,711,156	5,711,156	-
State of Washington Local Government Investment Pool	954,376	954,376	-
	<u>\$ 12,065,382</u>	<u>\$ 6,665,532</u>	<u>\$ 5,399,850</u>

#### Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

As required by state law, all City investments are limited to obligations of the U.S. government, U.S. agency issues, obligations of the State of Washington, repurchase agreements, banker's acceptances, the Washington State Local Government Investment Pool, County Investment Pool, and time certificates of deposit with authorized Washington State banks.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City limits its exposure to concentration risk by investing in U.S. government obligations or U.S. government agency securities.

### **Note 4: Property Taxes**

The County Treasurer acts as an agent to collect property tax levied in the country for all taxing authorities.

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

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance for the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible.

Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City may levy up to \$3.18 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2017 was \$1.1354 per \$1,000 on an assessed valuation of \$4,354,213,237 for a total regular levy of \$4,943,846. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

## Note 5: Capital Assets

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues or expenditures.

Capital asset activity in the primary government for the year ended December 31, 2017 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 32,385,845	\$ 10,900,998	\$ -	\$ 43,286,843
Right of way	10,615,041	-	-	10,615,041
Art	287,624	-	-	287,624
Construction in progress	1,431,761	1,059,186	(105,916)	2,385,031
Total capital assets, not being depreciated	<u>44,720,271</u>	<u>11,960,184</u>	<u>(105,916)</u>	<u>56,574,539</u>
Capital assets, being depreciated:				
Buildings	27,942,823	-	-	27,942,823
Other improvements	9,994,494	-	-	9,994,494
Machinery & equipment	9,818,251	841,927	(588,246)	10,071,932
Infrastructure	265,040,536	-	-	265,040,536
Total capital assets, being depreciated	<u>312,796,104</u>	<u>841,927</u>	<u>(588,246)</u>	<u>313,049,785</u>
Less accumulated depreciation for:				
Buildings	(6,704,944)	(698,609)	-	(7,403,553)
Other improvements	(4,320,515)	(734,846)	-	(5,055,361)
Machinery & equipment	(6,119,297)	(691,380)	511,496	(6,299,181)
Infrastructure	(159,399,370)	(201,326)	-	(159,600,696)
Total accumulated depreciation	<u>(176,544,126)</u>	<u>(2,326,161)</u>	<u>511,496</u>	<u>(178,358,791)</u>
Total capital assets, being depreciated, net	<u>136,251,978</u>	<u>(1,484,234)</u>	<u>(76,750)</u>	<u>134,690,994</u>
Governmental activities capital assets, net	<u>\$ 180,972,249</u>	<u>\$ 10,475,950</u>	<u>\$ (182,666)</u>	<u>\$ 191,265,533</u>

Depreciation expense for the year ended December 31, 2017 was charged to functions of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 455,279
Public safety	486,944
Transportation	321,111
Natural and economic environment	33,885
Culture and recreation	1,026,078
Total depreciation expense - governmental activities	<u>\$ 2,323,297</u>

Capital asset activity in the primary government for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	-	2,989	-	2,989
Art	-	-	-	-
Construction in progress	203,770	35,042	(2,989)	235,823
Total capital assets, not being depreciated	<u>353,770</u>	<u>38,031</u>	<u>(2,989)</u>	<u>388,812</u>
Capital assets, being depreciated:				
Buildings	-	-	-	-
Other improvements	7,816,677	3,567	-	7,820,244
Machinery & equipment	258,975	-	-	258,975
Infrastructure	-	-	-	-
Total capital assets, being depreciated	<u>8,075,652</u>	<u>3,567</u>	<u>-</u>	<u>8,079,219</u>
Less accumulated depreciation for:				
Buildings	-	-	-	-
Other improvements	(3,771,009)	(245,117)	-	(4,016,126)
Machinery & equipment	(167,021)	(32,015)	-	(199,036)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(3,938,030)</u>	<u>(277,132)</u>	<u>-</u>	<u>(4,215,162)</u>
Total capital assets, being depreciated, net	<u>4,137,622</u>	<u>(273,565)</u>	<u>-</u>	<u>3,864,057</u>
Business-type activities capital assets, net	<u>\$ 4,491,392</u>	<u>\$ (235,534)</u>	<u>\$ (2,989)</u>	<u>\$ 4,252,869</u>

Depreciation expense for the year ended December 31, 2017 was charged to Business-type functions based on their usage of assets as follows:

**Business-type activities:**

Surface Water	<u>\$ 279,995</u>
Total depreciation expense - business type activities	<u>\$ 279,995</u>

## Note 6: Pension Plans

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 2017:

<u>Aggregate Pension Amounts – All Plans</u>	
Pension liabilities	\$ 2,894,897
Pension assets	2,406,606
Deferred outflows of resources	836,984
Deferred inflows of resources	1,127,421
Pension expense/expenditures	368,165

### 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](http://www.drs.wa.gov).

### Public Employees' Retirement system (PERS)

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

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

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months.

There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

#### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>

The City's actual PERS plan contributions were \$215,055 to PERS Plan 1 and \$281,188 to PERS Plan 2/3 for the year ended December 31, 2017.

### **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 2017. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

#### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – June 2017:		
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>

July – December 2017:		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.43%</b>	<b>8.75%</b>

The City's actual contributions to the plan were \$283,092 for the year ended December 31, 2017.

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, 2017, the state contributed \$62,155,262 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$1,524,105.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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 changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

### 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

### 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, 2017, 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

### 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 -6.50%	Current Discount Rate -7.50%	1% Increase -8.50%
PERS 1	\$ 1,848,171	\$ 1,517,145	\$ 1,230,403
PERS 2/3	3,711,809	\$ 1,377,752	(534,661)
LEOFF 1	(42,327)	(57,063)	(69,717)
LEOFF 2	508,438	(2,349,543)	(4,678,107)

### 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, 2017, the City reported a total pension liability of \$2,894,897 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,517,144
PERS 2/3	1,377,752
LEOFF 1	(57,063)
LEOFF 2	(2,349,544)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for 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:

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
City's proportionate share of the net pension liability/(asset)	\$ 1,517,145	1,377,752	(57,063)	(2,349,543)
State's proportionate share of the net pension liability/(asset) associated with the City	-	-	(385,970)	(1,524,105)
Total	<u>\$ 1,517,145</u>	<u>\$ 1,377,752</u>	<u>\$ (443,033)</u>	<u>\$ (3,873,648)</u>

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

	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2016	0.032789%	0.040640%	0.004696%	0.175090%
2017	0.031973%	0.039653%	0.003761%	0.169315%
Change in proportion	<u>-0.000816%</u>	<u>-0.000987%</u>	<u>-0.000935%</u>	<u>-0.005775%</u>

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 Nonemployer 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 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of 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 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.



The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2017, the City recognized pension expense as follows:

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Pension Expense	\$ 49,778	\$ 221,438	\$ 1,540	\$ 95,409

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflow of resources</b>			
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Differences between expected and actual experience	\$ -	\$ 139,599	\$ -	\$ 103,267
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	14,634	-	2,829
Changes in proportion and differences between contributions and proportionate share of contributions	-	65,732	-	81,628
Contributions subsequent to the measurement date	118,600	159,875	-	150,820
Total	<u>\$ 118,600</u>	<u>\$ 379,840</u>	<u>\$ -</u>	<u>\$ 338,544</u>

  

	<b>Deferred inflow of resources</b>			
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Differences between expected and actual experience	\$ -	\$ 45,312	\$ -	\$ 89,099
Net difference between projected and actual investment earnings on pension plan investments	56,616	367,275	5,302	527,489
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	36,328	-	-
Total	<u>\$ 56,616</u>	<u>\$ 448,915</u>	<u>\$ 5,302</u>	<u>\$ 616,588</u>

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2018	\$ (38,269)	\$ (112,761)	\$ (3,328)	\$ (228,379)
2019	12,082	57,044	898	68,830
2020	(2,805)	(35,034)	(358)	(22,254)
2021	(27,624)	(153,486)	(2,514)	(221,703)
2022	-	6,647	-	(4,528)
Thereafter	-	8,640	-	(20,830)
Total	<u>\$ (56,616)</u>	<u>\$ (228,950)</u>	<u>\$ (5,302)</u>	<u>\$ (428,864)</u>

## **Note 7: Other Personnel Benefits**

### **Deferred Compensation**

The City offers employees three deferred compensation plans in accordance with Internal Revenue Code Section 457. These plans enable employees to defer a portion of their compensation until future years. The City makes contributions in accordance with bargaining agreements for covered employees. The City does not exercise control or fiduciary responsibility over the plan's assets, therefore the assets, liabilities, and transactions are not included in the City's financial statements.

### **Post-Employment Benefits**

#### **Plan Description**

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for one law enforcement officer employed prior to October 1, 1977. Under this requirement, the City provides medical, dental and long-term care 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 or pension plan, and any other similar source. Medical insurance for the retiree is provided by the City's medical insurance program specified under the Law Enforcement Officer's Collective Bargaining Agreement. Under authorization of the LEOFF 1 Disability Board, direct payment may be made for some retiree medical expenses not covered by standard benefit plan provisions. When the member turned 65, he enrolled in Medicare Part A and B, and the City reimburses the member for his Part B premium. The City provides health coverage for the LEOFF 1 retiree through a Medicare Advantage (Medicare Part C) plan administered by Premiera and their LEOFF Health and Welfare Trust. The City also reimburses the retiree for a Medicare Part D (drug) plan administered by Aetna. In addition, the City reimburses the retiree the necessary usual and customary medical (out of pocket) expenses in excess of those covered by the applicable medical plan, including Part D monthly premiums. Dental benefits are covered too. The City also purchased a long-term care insurance plan from Unum Life Insurance Company. The retiree does not contribute towards the cost of his medical care.

#### **Funding Policy**

Funding for LEOFF 1 retiree healthcare costs is provided by the City as required by RCW. These medical benefits are funded on a pay-as-you-go basis from the LEOFF 1 Reserve Fund. Health insurance premiums are paid monthly and long-term insurance is paid annually. Other services are paid as billings are presented for reimbursement; per the LEOFF 1 Disability Board Rules, the Board must meet at least twice per year, in April and September. Additional meetings may be called at the request of the Board or the retiree. The City reimbursed 100 percent of the amount of validated claims for medical costs incurred by the retiree.

#### **Actuarial Methods and Assumptions**

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and one inactive member who have left service. At the end of 2017 the member age was 78. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2014, 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 four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability (AAL) was the Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) 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.

#### **Annual OPEB Cost and Net OPEB Obligation**



The city's annual other postemployment benefit (OPEB) is calculated based upon the annual required contribution (ARC), an amount calculated using the alternative measurement method in accordance with the parameters of GASB 45 for employers with plans with fewer than one hundred total plan members utilizing the interactive tool developed by the Office of the State Actuary OSA for use by local government. Information based on estimates from the OSA assuming Medical Inflation of +or- 5% and Amortization Period of 30 years. The following table shows the components of the City's annual other post-employment benefits (OPEB) costs and Net OPEB obligation:

	12/31/2015	12/30/2016	12/31/2017
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liab	91,930	94,429	33,448
Annual Required Contribution	91,930	94,429	33,448
Determination of Net OPEB Obligation			
Annual Required Contribution	91,930	94,429	33,448
Interest on net OPEB obligation	7,043	8,916	10,859
Adjustment to Annual Required Contribution	(15,836)	(20,047)	(24,417)
Annual OPEB Cost	83,137	83,298	19,890
Contributions Made	36,311	34,707	10,458
Increase in Net OPEB Obligation	46,826	48,591	9,432
Net OPEB Obligation - beginning	176,064	222,890	271,481
Net OPEB Obligation - ending	\$ 222,890	\$ 271,481	\$ 280,913

The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Valuation Date	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost	Net OPEB Obligation
December 31, 2017	\$ 19,890	\$ 10,458	52.58%	\$ 280,913
December 30, 2016	83,298	34,707	41.67%	271,481

### Funding Status and Funding Progress

The required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the change in plan assets relative to the actuarial accrued liability for benefits.

## Note 8: Risk Management

### Washington Cities Insurance Authority

The City of Mukilteo 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 161 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits

are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is 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 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, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

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

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

### **Unemployment**

Workers' compensation, RCW Title 51, requires the City to ensure payment of benefits to employees for job-related injuries and diseases. The City is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2017:

	<u>2016</u>	<u>2017</u>
Liability - beginning	\$ 8,571	\$ (7,494)
Claims incurred	681	8,345
Claim payments	(8,571)	-
Adjustments	(8,175)	-
Liability - ending	<u>\$ (7,494)</u>	<u>\$ 851</u>

### **Dental and Vision**

The City was self-insured for dental and vision benefits for employees covered through certain bargaining agreements through December 31, 2017. As of January 01, 2018 the plan is no longer active. While the plan was active it was administered by the City, with claims being processed by an independent claims administrator. RCW 48.62 permits local governments to self-insure and Washington Administrative Code 200-100 regulates those programs. The City is required to maintain a reserve balance in an amount not less than eight weeks of program expenses for active plans. An additional contingency reserve established by the City Council is recommended but not required. Below is an analysis of claims activity for the two years ended December 31, 2017:

	<u>2016</u>	<u>2017</u>
Liability - beginning	\$ 14,507	\$ 12,476
Claims incurred	141,908	63,783
Claim payments	(143,939)	(74,968)
Liability - ending	<u>\$ 12,476</u>	<u>\$ 1,291</u>

## Note 9: Lease Obligations

### Operating lease

The City leases copy equipment under noncancelable operating leases. Total cost for such leases was \$6,862 for the year ended December 31, 2017. The future minimum lease payments for these leases are as follows:

2018	\$ 9,869
2019	9,869
2020	9,869
2021	9,347
2022	2,406
Total	<u>\$ 41,360</u>

## Note 10: Long-term Debt

The City may issue two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO) to provide funding for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

During 2009 the City issued limited tax general obligation bonds (LTGO) to finance the acquisition or construction of Rosehill Community Center. This debt has been issued for the general government and will be repaid with real estate excise taxes.

Bonded indebtedness has also been entered into in 2017 to advance refund part of the outstanding 2009 LTGO. On February 9, 2017 the City issued \$7,980,000 of general obligation bonds. Proceeds from these bonds were placed in an irrevocable trust for the purpose of generating resources for future debt service payments on \$7,365,000 of refunded debt principal and \$863,400 of interest payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$362,596 and resulted in an economic gain of \$316,941. The reacquisition price was less than the net carrying amount of old debt by \$184,901. This amount is being amortized over the remaining life of the refunded debt.

As of December 31, 2017 there was \$7,365,000 of debt defeased in-substance still outstanding. These bonds will be callable and paid by escrow in December 2019.



At December 31, 2017, the City had the following general obligation bonds outstanding:

Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
2009 LTGO Bonds - Community Center	09/10/2009	12/01/2029	3.54%	\$ 12,585,000	\$ 9,105,000	\$ -	\$ (7,925,000)	\$ 1,180,000
2017 LTGO Advanced Refunding Bond	02/09/2017	12/01/2029	2.40%	7,980,000	-	7,980,000	(110,000)	7,870,000
Total General Obligation Bonds				<u>\$ 20,565,000</u>	<u>\$ 9,105,000</u>	<u>\$ 7,980,000</u>	<u>\$ (8,035,000)</u>	<u>\$ 9,050,000</u>

The annual debt service requirements to maturity for these bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2018	\$ 650,000	\$ 230,043
2019	670,000	206,700
2020	695,000	185,520
2021	710,000	168,840
2022	730,000	151,800
2023-2027	3,900,000	488,520
2028-2029	1,695,000	61,200
Total	<u>\$ 9,050,000</u>	<u>\$ 1,492,623</u>

## Note 11: Construction and other significant commitments

The City had the following significant contractual obligations on construction projects at December 31, 2017:

Contracting Entity	Project Name	Balance
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	\$925,016
PACE Engineers, Inc.	Decant Facility	135,757
Tuttle Engineering and Management, LLC	61st Place West Retaining Wall Repair	113,682
J.A. Brennan Associates, PLLC	Mukilteo Waterfront Phase 2 Design and Permitting	112,010
Perteet, Inc.	SR 526 Bicycle - Pedestrian Pathway	78,549
Tuttle Engineering and Management, LLC	Harbour Pointe Blvd SW Widening	29,989
		<u>\$ 1,395,002</u>



## Note 12: Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 9,105,000	\$ 7,980,000	\$ (8,035,000)	\$ 9,050,000	\$ 650,000
Bond premium	220,501	-	(196,768)	23,733	11,866
Compensated absences	952,975	1,553,170	(1,345,230)	1,160,915	20,192
Pension obligation	3,568,519	2,710,277	(3,532,878)	2,745,918	-
Other postemployment benefits	271,481	9,432	-	280,913	-
Governmental activity - long-term liabilities	<u>14,118,476</u>	<u>12,252,879</u>	<u>(13,109,876)</u>	<u>13,261,479</u>	<u>682,058</u>
Business-type activities:					
Pension obligation	238,597	184,619	(274,237)	148,979	-
Compensated absences	59,863	81,961	(58,603)	83,221	1,447
Business-type activity - long-term liabilities	<u>298,460</u>	<u>266,580</u>	<u>(332,840)</u>	<u>232,200</u>	<u>1,447</u>
Total long-term liabilities	<u>\$ 14,416,936</u>	<u>\$ 12,519,459</u>	<u>\$ (13,442,716)</u>	<u>\$ 13,493,679</u>	<u>\$ 683,505</u>

## Note 13: Contingencies and Litigation

As of December 31, 2017, there was one lawsuit pending against the City; it is the opinion of management and the City Attorney that the disposition of this claim is not presently expected to have a material adverse effect on the City's financial statements.

The City participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

## Note 14: Interfund Activity

### Interfund transfers

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. Interfund transfers to support the operations of other funds are recorded as Transfers In or Transfers Out from the appropriate funds and are classified as Other Financing Sources or Uses. The City uses transfers to: move revenues from the fund that statute or budget requires to collect them in, to the fund that statute or budget requires to expend them in; move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers between funds as of December 31, 2017 are as follows:

<b>Transfers Out</b>	<b>Transfers In</b>				<b>Total</b>
	General Fund	Debt Service Fund	Capital Projects Fund	Facility Renewal Fund	
General Fund	\$ -	\$ -	\$ 60,000	\$ 335,508	\$ 395,508
Capital Projects Fund	290,410	884,913	-	-	1,175,323
Surface Water Management Fund	17,600	-	-	11,488	29,088
<b>Total</b>	<b>\$ 308,010</b>	<b>\$ 884,913</b>	<b>\$ 60,000</b>	<b>\$ 346,996</b>	<b>\$ 1,599,919</b>

The General Fund transferred \$60,000 to Capital Projects Fund to support the Pavement Preservation project. The General Fund transferred \$335,508 to Facility Renewal Fund to maintain the balance in that reserve fund. The Capital Projects Fund transferred \$290,410 to General Fund to close out the fund 341(\$220,010) and to recover the Capital Project Engineer salary portion of \$70,400. The transfer to Debt Service Fund is for general obligation debt payments.

The transfer from Surface Water Management Fund to General Fund was to recover the Capital Project Engineer salary portion of \$17,600. The remaining transfer of \$11,488 to Facility Renewal Fund is the Surface Water Fund portion to support the operations.

## **Note 15: Joint Ventures**

### Snohomish County Emergency Radio System

The Snohomish County Emergency Radio System (SERS) was formed in 1999 via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Snohomish County to provide enhanced emergency communication services to Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800 Megahertz emergency radio system. A 10-member Board of Directors is appointed by the cities and County to govern SERS. Each of the cities and the County are represented in the Board. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

SERS is reported as a governmental joint venture. The City of Mukilteo's share of the assets and equity as of December 31, 2017 is \$149,039. This value has been recorded in the government-wide statements as an investment in joint venture.

### Southwest Snohomish County Public Safety Communications Agency

The City of Mukilteo 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 Mukilteo, 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 South Snohomish County Fire and Rescue RFA are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population,



assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2017 the City of Mukilteo owned an equity interest in the SNOCOM joint venture of \$445,301. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2017. 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 provides general financial services as outlined in 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

In September 2013, the City of Mukilteo joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, 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 of Mukilteo's equity share as of December 31, 2017 is \$1,983. This is not considered material therefore the value has not been recorded in the financial statements.

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 219<sup>th</sup> Street SW, Mountlake Terrace WA 98043 (or email: [cwooldridge@ci.mlt.wa.us](mailto:cwooldridge@ci.mlt.wa.us)) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12625 4<sup>th</sup> Ave W, Suite 200, Everett, WA 98204.

## **Note 16: Other Disclosures**

### Accounting and reporting changes

The Governmental Accounting Standards Board (GASB) has issued several statements that take effect for 2017 reporting. The City adopted GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, which became effective for financial statements with fiscal years beginning after June 15, 2016. The statement addresses financial reporting issues to enhance consistency in



the application of financial reporting requirements to certain pension issues. This report has been prepared to conform to this newly adopted GASB statement.

**Other items**

The Transportation Benefit District (TBD) Fund was established after the formation of the District on April 3, 2017 by adoption of Ordinance 1399 pursuant to RCW 35.21.225 and RCW 36.73 for the purpose of levying additional revenue sources for acquiring, constructing, improving, providing and funding transportation improvements within the TBD that are consistent with the existing state, regional and local transportation plans. The TBD was governed by the Mukilteo City Council acting in an ex officio and independent capacity until the City Council formally absorbed the powers of the TBD on December 11, 2017. The City absorbed the powers of the TBD because its sole purpose is for the construction, preservation, maintenance and operation of City streets. The TBD had zero activity from the time it was established until the time it was absorbed, no assets or liabilities were available or recorded by the City.

**Note 17: Subsequent Events**

Effective January 1, 2018, SNOCOM, a joint venture of the City of Mukilteo, consolidated with Snohomish County Police Staff and Auxiliary Service Center (SNOPAC), forming Snohomish County 911. Each agency's ending balance in net equity interest was transferred to the newly created entity at year-end.

## Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

### Streets:

The City of Mukilteo has taken a pragmatic approach with pavement management practices associated with public streets. The City performed a city wide pavement condition assessment in 2007, 2014 and 2016 and updated the Pavement Management Program (PMP). The Pavement Management Program provides a management tool to inventory street pavement, assess pavement condition, record historical surface improvements, forecast street budget requirements, and view impacts of funding on City-wide pavement condition over time.

The PMP is also a tool for analyzing pavement conditions and recommending rehabilitation strategies based in funding levels. A major component of the PMP is the Pavement Condition Index (PCI). The City's surface rehabilitation strategy is based on PCI scores and the corresponding condition category. Streets with PCI scores over 69 are considered to be "Very Good" and may require cracks to be sealed and a single chip seal surface treatment. Streets with scores from 50 to 69 are considered "Good" and may require patching, crack sealing, slurry seal, single chip seal or double chip seal surface treatment. Streets with PCI scores between 25 and 49 are considered "Poor" and generally require more expensive rehabilitation treatments. Street with scores below 25 are "Very Poor" and are typically in need of complete reconstruction.

A summary of the assessment completed assessments are shown in the table below:

**Table 1**  
**Overall Pavement Condition Assessment 2007, 2014 & 2016**

Condition Rating	2007		2014		2016	
	Miles	Percentage	Miles	Percentage	Miles	Percentage
Excellent	22.6	37.1%	7.0	11.5%	-	0.0%
Very Good	20.4	33.5%	43.8	71.9%	51.8	86.8%
Good	13.1	21.5%	7.1	11.7%	5.2	8.7%
Poor	4.8	7.9%	2.3	3.8%	2.4	4.0%
Very Poor	-	0.0%	0.7	1.1%	0.3	0.5%
<b>Total</b>	<b>60.9</b>		<b>60.9</b>		<b>59.7</b>	

The City's goal is to maintain the City wide pavement system at a condition level of "Very Good".

The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There are two State highways (SR 525 and SR 526) which are considered arterial streets within the City limits: these pavement surfaces are maintained by Washington State Department of Transportation (WSDOT). The entire pavement system within the City of Mukilteo is composed of approximately 59.7 miles of paved surface and is divided into 409 pavement management segments. To assist in planning the surfacing needs, the City streets were grouped by functional class (Arterial, Urban Minor Arterial, Collector, and Residential). The table below shows the City's pavement mileage by functional classification:

**Table 2**  
**Pavement Mileage by Functional Class**

<b>Functional Classification</b>	<b>Centerline Miles</b>
Arterial	1.0
Urban Minor Arterial	0.8
Collector	11.3
Residential/Local	46.6
<b>Grand Total</b>	<b>59.7</b>

One of the key elements of a pavement repair strategy is to keep streets that are in the Very Good or Good categories from deteriorating. This is particularly true for streets in the Good range, because they are at the point where pavement deterioration accelerates if left untreated. However, the deterioration rate for pavements in the Poor to Very Poor range is relatively flat and the condition of these streets will not decline significantly if repairs are delayed. As more Very Good streets deteriorate into the Good, Poor, and Very Poor categories, the cost of deferred maintenance will continue to increase.

The City's Pavement Management Program is designed with focusing on a cost-effective, "Best-first" approach. The reasoning behind this philosophy is that it is better to treat streets with lower-cost, preventative maintenance treatments, such as slurry seals, chip seals, and crack seals, and extend their life cycle, before the street condition deteriorates to a state where it requires costlier rehabilitation and reconstruction treatments. Generally, paved streets spend about three-quarters of their lifecycle in Good to Very Good condition, where the street shows little sign of deterioration, and has a high service level. After this time, the street condition begins to deteriorate at a rapid rate and, if not maintained properly, soon reach a condition where it will require costly overlays and reconstructions. If treated with a surface seal and other preventative measures, the street condition will remain at a Very Good level for a longer period of time. However, in addition to maintaining a condition rating of Good, the streets that have slipped past the Good condition cannot be completely ignored. The City's approach is to focus a significant amount of budget towards preserving the Good and Very Good streets, but setting aside some funding for rehabilitating some of the Poor and Very Poor roads.

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2013 to 2017.

<b>Year</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Planned</b>	\$ 1,045,000	\$ 882,000	\$ 350,000	\$ 317,000	\$ 510,420
<b>Actual</b>	\$ 722,108	\$ 350,022	412,831	16,200	495,130
<b>Variance</b>	\$ 322,892	\$ 531,978	\$ (62,831)	\$ 300,800	\$ 15,290
	30.90%	60.31%	-17.95%	94.89%	3.00%



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

For the Year Ended December 31, 2017

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>REVENUES</b>				
Property taxes	\$ 6,821,000	\$ 6,821,000	\$ 6,810,443	\$ (10,557)
Sales taxes	3,090,000	3,090,000	3,281,608	191,608
Other taxes and assessments	3,070,000	3,070,000	2,939,810	(130,190)
Licenses and permits	1,459,500	1,459,500	1,332,142	(127,358)
Intergovernmental	1,124,178	1,124,178	1,139,848	15,670
Charges for services	980,341	980,341	1,015,720	35,379
Fines and forfeitures	181,550	181,550	136,508	(45,042)
Rents and leases	1,119,500	1,119,500	1,148,520	29,020
Interest earnings	68,750	68,750	134,350	65,600
Contributions and donations	15,500	15,500	14,550	(950)
Miscellaneous revenues	23,050	23,050	87,123	64,073
<b>Total revenues</b>	<b>17,953,369</b>	<b>17,953,369</b>	<b>18,040,622</b>	<b>87,253</b>
<b>EXPENDITURES</b>				
General government	3,981,708	4,184,708	4,424,117	239,409
Public safety	10,086,875	10,118,871	9,942,770	(176,101)
Transportation	783,968	796,968	789,239	(7,729)
Natural and economic environment	1,645,235	1,645,235	1,319,249	(325,986)
Culture and recreation	1,427,005	1,487,675	1,565,026	77,351
Capital outlay:				
Capital outlay	6,000	6,000	117,215	111,215
<b>Total expenditures</b>	<b>17,930,791</b>	<b>18,239,457</b>	<b>18,157,616</b>	<b>(81,841)</b>
Excess of revenues over expenditures	22,578	(286,088)	(116,994)	169,094
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	318,035	442,035	308,010	(134,025)
Transfers out	(529,533)	(529,533)	(395,508)	134,025
<b>Total other financing sources (uses)</b>	<b>(211,498)</b>	<b>(87,498)</b>	<b>(87,498)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(188,920)</b>	<b>(373,586)</b>	<b>(204,492)</b>	<b>169,094</b>
Fund balance - beginning	5,420,247	5,420,247	5,420,247	-
<b>Fund balance - ending</b>	<b>\$ 5,231,327</b>	<b>\$ 5,046,661</b>	<b>\$ 5,215,755</b>	<b>\$ 169,094</b>

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

### Schedule of Funding Progress of Other Post-Employment Benefits

Valuation Date	Actuarial value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
December 31, 2017	\$ -	\$ 371,889	\$ 371,889	0.00%	\$ -	0.00%
December 30, 2016	-	1,049,903	1,049,903	0.00%	-	0.00%





## Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2017

City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2017		City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2017			
		PERS 2/3			
		Last 10 Fiscal Years*			
		2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)		0.03197%	0.03279%	0.03335%	0.031653%
Employer's proportionate share of the net pension liability		\$ 1,517,145	\$ 1,760,924	\$ 1,744,620	\$ 1,594,535
Employer's covered payroll		\$ 3,960,306	\$ 3,869,185	\$ 3,660,412	\$ 3,290,203
Employer's proportionate share of the net pension liability as a percentage of covered payroll		38.31%	45.51%	47.66%	48.46%
Plan fiduciary net position as a percentage of the total pension liability		61.24%	57.03%	59.10%	61.19%

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2017		City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2017			
		LEOFF 1			
		Last 10 Fiscal Years*			
		2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)		0.00376%	0.00470%	0.00465%	0.004607%
Employer's proportionate share of the net pension liability		\$ (57,063)	\$ (48,382)	\$ (55,983)	\$ (55,873)
State's proportionate share of the net pension liability (asset) associated with the employer		\$ (1,524,105)	\$ (663,907)	\$ (1,202,242)	\$ -
Total		\$ (3,873,648)	\$ (1,682,283)	\$ (3,020,513)	\$ (2,455,375)
Employer's covered payroll		\$ 5,306,023	\$ 5,302,559	\$ 5,149,879	\$ 5,012,176
Employer's proportionate share of the net pension liability as a percentage of covered payroll		-44.28%	-19.21%	-35.31%	-48.99%
Plan fiduciary net position as a percentage of the total pension liability		113.36%	106.04%	111.67%	61.19%

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.



## Schedule of Employer Contributions As of December 31, 2017

**City of Mukilteo**  
**Schedule of Employer Contributions**  
**As of December 31, 2017**  
**PERS 1**

	Last 10 Fiscal Years*			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 215,055	\$ 186,362	\$ 158,036	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(215,055)	(186,362)	(158,036)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 4,006,267	\$ 3,831,894	\$ 3,505,649	\$ 3,217,521
Contributions as a percentage of covered payroll	5.37%	4.86%	4.51%	16.72%

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

**City of Mukilteo**  
**Schedule of Employer Contributions**  
**As of December 31, 2017**  
**LEOFF 1**

	Last 10 Fiscal Years*			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily or contractually required contributions	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	-	-	-	-

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

**City of Mukilteo**  
**Schedule of Employer Contributions**  
**As of December 31, 2017**  
**PERS 2/3**

	Last 10 Fiscal Years*			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 281,188	\$ 253,930	\$ 209,660	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(281,188)	(253,930)	(209,660)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 3,973,885	\$ 3,778,534	\$ 3,419,503	\$ 3,058,441
Contributions as a percentage of covered payroll	7.08%	6.72%	6.13%	17.59%

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

**City of Mukilteo**  
**Schedule of Employer Contributions**  
**As of December 31, 2017**  
**LEOFF 2**

	Last 10 Fiscal Years*			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 283,092	\$ 271,069	\$ 263,284	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(283,092)	(271,069)	(263,284)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$ 5,236,373	\$ 5,134,770	\$ 4,976,657	\$ 4,792,253
Contributions as a percentage of covered payroll	5.41%	5.28%	5.29%	11.23%

\* Until a full 10-year trend is compiled, information is presented only for those years for which information is 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>