



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Mukilteo

For the period January 1, 2018 through December 31, 2018

Published November 21, 2019

Report No. 1025022





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

November 21, 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, 2018 through December 31, 2018**

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2019. As discussed in Note 7 to the financial statements, during the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated November 12, 2019.

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.

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

November 12, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mukilteo January 1, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 November 12, 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.



Pat McCarthy

State Auditor

Olympia, WA

November 12, 2019

FINANCIAL SECTION

City of Mukilteo January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Activities – 2018

Balance Sheet – Governmental Funds – 2018

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2018

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of the Governmental Funds to the Statement of Activities – 2018

Statement of Net Position – Proprietary Funds – 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2018

Statement of Cash Flows – Proprietary Funds – 2018

Statement of Net Position – Fiduciary Funds – 2018

Notes to the Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessment and Preservation of Infrastructure Eligible for Modified
Accounting Approach – 2018

Schedule of Revenues, Expenditure and Changes in Fund Balances – Budget and Actual
General Fund – 2018

Schedule of Changes in Total OPEB Liability and Related Ratios – 2018

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,
LEOFF 2 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2018

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, 2018. 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 \$201,647,699 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$187,089,084 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) \$5,565,917 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 \$8,992,698 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 \$9,638,551 this year. This compares to the prior year ending fund balance of \$9,601,502 showing an increase of \$37,049 or 0.39% during the current year. This maintains a stable fund balance.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$538,534 or 2.79% of total General Fund expenditures.

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. The enterprise fund encompasses the same functions reported as business-type activities in the government-wide statements, surface water management. The internal service funds include an equipment replacement 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 Postemployment 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 following table provides a summary of the City's net position for the years ended December 31, 2018 and 2017:

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current assets	\$ 13,419,274	\$ 14,217,320	\$ 3,813,784	\$ 2,915,237	\$ 17,233,058	\$ 17,132,557
Noncurrent assets						
Net pension asset	3,584,172	2,406,606	-	-	3,584,172	2,406,606
Investment in joint ventures	1,013,255	594,340	-	-	1,013,255	594,340
Capital assets	190,710,898	191,265,533	4,774,185	4,252,869	195,485,083	195,518,402
Total assets	208,727,599	208,483,799	8,587,969	7,168,106	217,315,568	215,651,905
Deferred Outflows:						
Pension obligation	865,117	795,856	43,422	41,128	908,539	836,984
Other postemployment benefits	3,665		-		3,665	
Total deferred outflows	868,782	795,856	43,422	41,128	912,204	836,984
Liabilities:						
Current liabilities	1,721,272	1,443,053	173,192	98,480	1,894,464	1,541,533
Long-term liabilities	12,252,489	13,462,876	164,121	232,200	12,416,610	13,695,076
Total liabilities	13,973,761	14,905,929	337,313	330,680	14,311,074	15,236,609
Deferred Inflows:						
Pension obligation	2,003,719	1,063,817	126,146	63,604	2,129,865	1,127,421
Grants received in advance	77,500	775,000	-	-	77,500	775,000
Refunded debt	61,634	123,268	-	-	61,634	123,268
Total deferred inflows	2,142,853	1,962,085	126,146	63,604	2,268,999	2,025,689
Net position:						
Net investment in capital assets	182,314,898	182,843,532	4,774,186	4,252,869	187,089,084	187,096,401
Restricted	5,565,917	4,179,419	-	-	5,565,917	4,179,419
Unrestricted	5,598,952	5,388,690	3,393,746	2,562,081	8,992,698	7,950,771
Total net position	\$ 193,479,767	\$ 192,411,641	\$ 8,167,932	\$ 6,814,950	\$ 201,647,699	\$ 199,226,591

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 7.80 to 1 at December 31, 2018. The current ratio for the business-type activities at December 31, 2018 is 22.02 to 1. For the City overall, the current ratio is 9.10 to 1. These ratios are strong.



The City reported positive balances in net position for both governmental and business-type activities. Net position increased by \$1,155,012 for governmental activities and increased by \$1,352,982 for business-type activities. The City's overall financial position increased during calendar year 2018 by \$2,507,994 .

The City reported that 94.23% 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 58.45% of its net position as its net capital investment. Capital assets in the business-type activities provide surface water services and generate revenues for this fund. Overall, 92.78% of the City's total net position is included in net investment 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, 2018 and 2017:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 4,107,407	\$ 3,975,151	\$ 3,270,246	\$ 2,829,705	\$ 7,377,653	\$ 6,804,856
Operating grants and contributions	2,627,468	1,312,592	-	-	2,627,468	1,312,592
Capital grants and contributions	1,195,150	559,248	130,457	8,294	1,325,607	567,542
General revenues:						
Property taxes	6,825,149	6,898,350	-	-	6,825,149	6,898,350
Sales taxes	3,593,358	3,281,608	-	-	3,593,358	3,281,608
Other taxes	4,802,334	4,197,123	-	-	4,802,334	4,197,123
Other (net)	780,977	11,152,933	749	3,542	781,726	11,156,475
Total revenues	23,931,843	31,377,005	3,401,452	2,841,541	27,333,295	34,218,546
Program expenses:						
General government	4,161,096	4,226,234	-	-	4,161,096	4,226,234
Public safety	10,863,295	10,803,269	-	-	10,863,295	10,803,269
Transportation	1,779,310	1,864,384	-	-	1,779,310	1,864,384
Natural and economic environment	2,912,334	1,332,458	-	-	2,912,334	1,332,458
Culture and recreation	2,868,402	2,670,636	-	-	2,868,402	2,670,636
Interest on long-term debt	230,094	827,288	-	-	230,094	827,288
Surface water management	-	-	2,010,770	1,898,872	2,010,770	1,898,872
Total expenses	22,814,531	21,724,269	2,010,770	1,898,872	24,825,301	23,623,141
Revenues over (under) expenses	1,117,312	9,652,736	1,390,682	942,669	2,507,994	10,595,405
Transfers in (out)	37,700	29,088	(37,700)	(29,088)	-	-
Change in net position	1,155,012	9,681,824	1,352,982	913,581	2,507,994	10,595,405
Beginning net position	192,411,641	182,729,817	6,814,950	5,901,369	199,226,591	188,631,186
Change in accounting principle	(86,886)	-	-	-	(86,886)	-
Ending net position	\$ 193,479,767	\$ 192,411,641	\$ 8,167,932	\$ 6,814,950	\$ 201,647,699	\$ 199,226,591

Governmental Activities Analysis

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. From 2017 to 2018, the assessed taxable valuation of an average residential property increased by 7.6%. Sales taxes increased \$311,750 over 2017 or 9.50%, which includes the Transportation Benefit District sales tax that started in 2018. The economy continues to strengthen in the City as we have seen an increase in retail sales, and an increase in sales tax generated by new construction activities in the City.



In total, taxes make up 63.60% of the total revenues stream as compared to 45.82% in 2017. The large increase is related to an increase in real estate excise tax revenues from the sale of major commercial real estate properties and the Transportation Benefit District sales tax.

The operating grants of \$526,592 for general government programs included the following:

- Liquor Board Taxes from the State of Washington: \$175,993
- Liquor Excise Tax from the State of Washington: \$109,019
- PUD Privilege Tax from Snohomish County PUD: \$121,580
- Grant from the Port of Everett \$100,000 and grant from Snohomish County \$20,000 for the Waterfront redevelopment

The primary sources of other governmental operating grants are the City's share of the State's Motor Vehicle Fuel Tax of \$460,327 and the City's share of the state's LEOFF 1 pension funding of \$195,260.

The City had state operating grants for the Mukilteo Boys and Girls Club ballfields project of \$1,147,500 and capital grants for the following projects:

- Tank Farm Site remediation project: \$362,100
- Harbour Reach Extension project: \$750,738

The City reported investment interest earned in the amount of \$187,347 as compared to \$164,413 in 2017, due to maturities of investment bonds.

Note that program revenues cover 34.76% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 65.24% 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 2017 to 2018. Although total cost of services increased by \$1,090,262, the net cost of services decreased by \$992,772, due to an increase in expenditures for natural and economic environment function related to the Mukilteo Boys and Girls Club ballfields project funded by state grant.

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

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
General government	\$ 4,161,096	\$ 4,226,234	\$ 1,900,476	\$ 2,085,676
Public safety	10,863,295	10,803,269	9,528,469	9,668,911
Transportation	1,779,310	1,864,384	266,673	522,501
Natural and economic environment	2,912,334	1,332,458	1,750,569	1,332,458
Culture and recreation	2,868,402	2,670,636	1,208,225	1,440,444
Interest on long-term debt	230,094	827,288	230,094	827,288
Total	<u>\$ 22,814,531</u>	<u>\$ 21,724,269</u>	<u>\$ 14,884,506</u>	<u>\$ 15,877,278</u>

Business-Type Activities Analysis

The City maintains a single enterprise fund for surface water activities. In this fiscal year, operating revenues were \$3,270,246 and operating expenses were \$1,961,652 , resulting in an operating gain of \$1,308,593 .

Revenues from charges for services increased \$440,541 or 15.57% greater in 2018 than 2017. This increase includes an 11% rate increase in line with a multi-year rate increase plan that was adopted by the City Council in 2015, and one-time revenues from payments on significantly delinquent accounts that were made current.

Operations and maintenance costs increased \$89,591 or 5.53% above 2017 amount. Depreciation expense decreased \$26,811 or 9.58% in 2018 as compared to 2017. In this year, the Surface Water Fund transferred \$37,700 of resources to other funds. At December 31, 2018, net position totaled \$8,167,932 . Of this amount, \$4,774,186 or 58.45% 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 \$11,614,353 as compared to the amount of \$9,601,502 at December 31, 2017.

The restricted amount at December 31, 2018 was \$5,459,731 , relating primarily to capital improvements funded by REET revenues.

The committed amount of \$1,183,684 is primarily for a contingency reserve of \$1 million.

The assigned fund balance of \$2,399,788 is set aside for operating reserves in the General Fund in accordance with City policy.

The General Fund – The General Fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. The General Fund's fund balance decreased by \$28,946 or 0.55% in 2018. In calendar year 2017, the fund balance decreased \$204,492 or 3.77%.

Total revenues increased \$849,166 or 4.71% in 2018, which is largely related to increased sales taxes in the amount of \$263,613 or 2.02% which includes the Transportation Benefit District sales tax.

Total licenses and permits were up \$108,648 or 8.16% above the 2017 amount, due to an increase in the value and number of construction permits.

In 2018, total expenditures increased \$1,128,118 or 6.21% above the 2017 amount; this amount includes a one-time contribution to the Mukilteo Boys and Girls Club ballfields project, and the Transportation Benefit District pavement preservation project.

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

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



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 decreased from \$300,020 to \$121,043 because of a decrease 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 2018, the City recognized real estate excise tax collected in the amount of \$1,918,557 as compared to \$1,257,312 in 2017 due to an increase in the number of large commercial sales as compared to 2017.

In 2018 capital outlay projects totaled \$1,275,594 , while non-capital maintenance and other costs totaled \$1,795,023 . Ending fund balance in 2018 is \$4,448,320 . Capital outlay increased from 2017 primarily related to the Tank Farm Site remediation project and the Waterfront Promenade project.

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 proceeds from the sale will be used to call outstanding bonds in December 2019.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund revenue budget was amended upward by \$70,900, or 0.38% primarily for grant revenues. In total, the City realized 100.51% of estimated revenues.

Total tax revenue was \$334,326 lower than the budget. Property tax revenue was \$29,462 below the final budget, sales tax revenue was \$156,642 lower than the final budget, and other taxes and assessments were \$148,223 below the final budget.

With regard to General Fund expenditure budget, it was amended upward \$167,576 or 0.86%. This is primarily related to specific grants that were also part of the revenue budget amendment.

The public safety budget was underspent by \$62,912 or 0.61%. The natural and economic environment was underspent by \$411,117 or 24.00%, the culture and recreation budget was underspent by \$45,555 or 2.59% and the general government budget was overspent by \$385,654 or 9.77%, 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, 2018 was a 0.29% decrease for governmental activities and a 12.26% increase for business-type activities. The overall decrease was 0.004% 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, 2018 and 2017.

	Governmental Activities		Business Activities		Total	
	2018	2017	2018	2017	2018	2017
Nondepreciable assets:						
Land	\$ 43,286,843	\$ 43,286,843	\$ 150,000	\$ 150,000	\$ 43,436,843	\$ 43,436,843
Right of way	10,660,585	10,615,041	3,634	2,989	10,664,219	10,618,030
Art collections	287,624	287,624	-	-	287,624	287,624
Infrastructure - streets	101,539,370	101,539,370	-	-	101,539,370	101,539,370
Construction in progress	3,723,441	2,385,031	508,975	235,823	4,232,416	2,620,854
Total nondepreciable assets	159,497,863	158,113,909	662,609	388,812	160,160,472	158,502,721
Depreciable assets:						
Buildings	27,942,823	27,942,823	-	-	27,942,823	27,942,823
Other improvements	10,013,854	9,994,494	7,820,244	7,820,244	17,834,098	17,814,738
Machinery and equipment	10,179,459	10,071,932	632,039	258,975	10,811,498	10,330,907
Infrastructure	12,810,966	12,810,966	-	-	12,810,966	12,810,966
Total depreciable assets	60,947,102	60,820,215	8,452,283	8,079,219	69,399,385	68,899,434
Less accumulated depreciation	29,734,067	27,668,591	4,340,707	4,215,162	34,074,774	31,883,753
Book value - depreciable assets	31,213,035	33,151,624	4,111,576	3,864,057	35,324,611	37,015,681
Percentage depreciated	49%	45%	51%	52%	49%	46%
Book value - all assets	\$ 190,710,898	\$ 191,265,533	\$ 4,774,185	\$ 4,252,869	\$ 195,485,083	\$ 195,518,402

At December 31, 2018, the depreciable capital assets for governmental activities were 49% depreciated, which is consistent with capital assets as of December 31, 2017.

Governmental Activities

The increase to the construction in progress consisted primarily of:

- Harbour Reach Extension project
- Harbour Pointe Blvd. Widening project
- Waterfront Promenade design
- Tank Farm Site remediation project
- Peace Park project

Business Activities

The increase to the construction in progress consisted primarily of:

- 61st Street Culvert Replacement project
- 61st Place Retaining Wall project
- 61st Place Catchment Wall project
- Decant Facility Design project

The City uses the modified approach for reporting selected infrastructure assets. The modified approach requires the City to meet certain requirements regarding the inventory and maintenance of eligible capital assets, including condition assessments. Under the modified approach, assets are not depreciated, and certain maintenance and preservation costs associated with those assets are expensed. Assets accounted for under this approach include approximately 62 lane miles of pavement and are assessed on a two-year cycle.

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 obligations at both December 31, 2018 and 2017. The City restated the December 31, 2017 Other postemployment benefits balance to reflect GASB 75 change in accounting principle reflected in the restated 2018 statements, to make this table more comparable.

	Outstanding Obligations					
	Governmental Activities		Business-type Activities		Totals	
	2018	Restated 2017	2018	2017	2018	Restated 2017
General obligation bonds	\$ 8,400,000	\$ 9,050,000	\$ -	\$ -	\$ 8,400,000	\$ 9,050,000
Compensated absences	1,283,042	1,160,916	125,818	83,221	1,408,860	1,244,137
Pension obligation	2,180,713	2,745,917	38,304	148,979	2,219,017	2,894,896
Other postemployment benefits	376,868	372,278	-	-	376,868	372,278
Total	<u>\$ 12,240,623</u>	<u>\$ 13,329,111</u>	<u>\$ 164,122</u>	<u>\$ 232,200</u>	<u>\$ 12,404,745</u>	<u>\$ 13,561,311</u>

The general obligation bonds are reported gross (unamortized bond premium is not included). 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 6, 7, 10 and 12 following the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2019 budget is the first budget presented by Mayor Jennifer Gregerson during her second term in office. During her first term, Mayor Gregerson kept her commitment to maintain high service delivery levels without increases in taxes and fees. For the 2019 budget year, the Mayor committed to propose a budget that was not just balanced, but also sustainable. The 2019 budget includes an increase in property taxes for the first time since 2013 and presents a realistic picture of the costs to deliver the fundamentals of our operation: public safety, infrastructure, development services, and parks and recreation. 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 a 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 2019 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**

2019 Budget Overview

Budgeted revenues and transfers in for all funds total \$45.8 million. Total budgeted expenditures and transfers out total \$48.7 million.

Exceeding the two-month minimum fund balance set by policy, the budget includes an estimated ending balance in the General Fund of \$3 million which equals 20% of 2019 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.

Government-wide Financial Statements
Statement of Net Position
December 31, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,815,745	\$ 3,277,617	\$ 9,093,362
Investments	5,407,177	-	5,407,177
Receivables (net of allowance for uncollectible)	498,716	488,803	987,519
Grants receivable	438,508	39,495	478,003
Taxes receivable	1,202,157	-	1,202,157
Prepaid items	56,972	7,869	64,841
Noncurrent assets:			
Investment in joint ventures	1,013,255	-	1,013,255
Net pension asset	3,584,172	-	3,584,172
Capital assets not being depreciated:			
Land	43,286,843	150,000	43,436,843
Right of way easements	10,660,585	3,634	10,664,219
Art collections	287,624	-	287,624
Infrastructure - streets	101,539,370	-	101,539,370
Construction in progress	3,723,441	508,975	4,232,416
Capital assets, (net of accumulated depreciation):			
Buildings	19,856,249	-	19,856,249
Other improvements	4,226,290	3,593,221	7,819,511
Machinery and equipment	3,419,764	518,355	3,938,119
Infrastructure	3,710,732	-	3,710,732
Total capital assets	<u>190,710,899</u>	<u>4,774,186</u>	<u>195,485,085</u>
Total assets	<u>208,727,600</u>	<u>8,587,969</u>	<u>217,315,570</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligation	865,117	43,422	908,539
Other postemployment benefit obligation	3,665	-	3,665
Total deferred outflows of resources	<u>868,782</u>	<u>43,422</u>	<u>912,204</u>
LIABILITIES			
Current liabilities:			
Accounts payable	605,648	131,986	737,634
Accrued wages	501,187	41,206	542,393
Deposits payable	426,151	-	426,151
Unearned revenue	188,286	-	188,286
Noncurrent liabilities:			
Due within one year	836,829	15,195	852,024
Due in more than one year	11,415,661	148,926	11,564,587
Total liabilities	<u>13,973,761</u>	<u>337,313</u>	<u>14,311,075</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligation	2,003,719	126,146	2,129,865
Grants received in advance	77,500	-	77,500
Refunded debt	61,634	-	61,634
Total deferred inflows of resources	<u>2,142,853</u>	<u>126,146</u>	<u>2,268,999</u>
NET POSITION			
Net investment in capital assets	182,314,898	4,774,186	187,089,084
Restricted for:			
Capital	4,370,820	-	4,370,820
Reserves	183,389	-	183,389
Other purposes	1,011,707	-	1,011,707
Unrestricted	5,598,953	3,393,746	8,992,698
Total net position	<u>\$ 193,479,767</u>	<u>\$ 8,167,932</u>	<u>\$ 201,647,699</u>

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



Statement of Activities For the year ended December 31, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-type Activities
Functions/Programs:						
Primary government:						
Governmental activities:						
General government	\$ 4,161,096	\$ 1,734,028	\$ 526,592	\$ -	\$ (1,900,476)	\$ (1,900,476)
Public safety	10,863,295	915,708	389,867	29,251	(9,528,469)	(9,528,469)
Transportation	1,779,310	172,556	536,282	803,799	(266,673)	(266,673)
Natural and economic environment	2,912,334	-	1,161,765	-	(1,750,569)	(1,750,569)
Culture and recreation	2,868,402	1,285,115	12,962	362,100	(1,208,225)	(1,208,225)
Interest on long-term debt	230,094	-	-	-	(230,094)	(230,094)
Total governmental activities	22,814,531	4,107,407	2,627,468	1,195,150	(14,884,506)	(14,884,506)
Business-type activities:						
Surface water	2,010,770	3,270,246	-	130,457	-	1,389,933
Total business-type activities	2,010,770	3,270,246	-	130,457	-	1,389,933
Total primary government	\$ 24,825,301	\$ 7,377,653	\$ 2,627,468	\$ 1,325,607	(14,884,506)	(13,494,573)
General revenues:						
Property taxes					6,825,149	6,825,149
Sales taxes					3,593,358	3,593,358
Other taxes					4,802,334	4,802,334
Investment earnings					187,347	187,347
Miscellaneous revenue					593,630	594,379
Transfers					37,700	(37,700)
Total general revenues and transfers					16,039,518	16,002,567
Change in net position					1,155,012	2,507,994
Net position - beginning					192,411,641	199,226,591
Change in accounting principle					(86,886)	(86,886)
Restated net position - beginning					192,324,755	199,139,705
Net position - ending					\$ 193,479,767	\$ 201,647,699

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

**Fund Financial Statements
Balance Sheet
Governmental Funds
December 31, 2018**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,479,950	\$ 3,505,034	\$ 3,423	\$ 4,988,407
Investments	3,454,966	979,555	-	4,434,521
Receivables (net of allowance for uncollectible)	493,947	-	-	493,947
Grants receivable	67,016	371,492	-	438,508
Taxes receivable	1,098,386	103,771	-	1,202,157
Prepaid items	56,813	-	-	56,813
Total Assets	<u>\$ 6,651,078</u>	<u>4,959,852</u>	<u>3,423</u>	<u>11,614,353</u>
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES				
Liabilities:				
Accounts payable	\$ 335,615	235,593	-	571,208
Accrued wages	488,440	-	-	488,440
Deposits payable	234,843	191,308	-	426,151
Unearned revenue	188,286	-	-	188,286
Total Liabilities	<u>\$ 1,247,184</u>	<u>426,901</u>	<u>-</u>	<u>1,674,085</u>
Deferred Inflows of Resources:				
Unavailable revenue - receivables	\$ 217,086	7,131	-	224,217
Grants received in advance	-	77,500	-	77,500
Total Deferred Inflows of Resources	<u>\$ 217,086</u>	<u>84,631</u>	<u>-</u>	<u>301,717</u>
Fund Balances:				
Nonspendable	\$ 56,814	-	-	56,814
Restricted	1,007,988	4,448,320	3,423	5,459,731
Committed	1,183,684	-	-	1,183,684
Assigned	2,399,788	-	-	2,399,788
Unassigned	538,534	-	-	538,534
Total Fund Balances	<u>\$ 5,186,808</u>	<u>4,448,320</u>	<u>3,423</u>	<u>9,638,551</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,651,078</u>	<u>\$ 4,959,852</u>	<u>\$ 3,423</u>	<u>\$ 11,614,353</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.	187,537,561
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	1,013,255
Other items related to pension and other post employment benefit activity that are not financial resources and, therefore, are not reported in the funds.	2,463,112
Deferred inflows related to unearned revenue that are not available in the current period and, therefore, are not reported in the funds.	224,217
Deferred inflows related to refunding of general obligation bonds that are not financial resources and, therefore, are not reported in the funds.	(61,634)
Long-term liabilities, such as compensated absences and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(12,233,755)
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.	4,898,460

Net position of governmental activities	\$ 193,479,767
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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, 2018

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 6,818,338	\$ -	\$ -	\$ 6,818,338
Sales taxes	3,593,358	-	-	3,593,358
Other taxes and assessments	2,883,777	1,918,557	-	4,802,334
Licenses and permits	1,440,790	-	-	1,440,790
Intergovernmental	1,284,707	2,327,893	-	3,612,600
Charges for services	1,189,287	121,043	-	1,310,330
Fines and forfeitures	165,608	-	-	165,608
Rents and leases	1,191,569	-	-	1,191,569
Investment earnings	150,456	25,818	-	176,274
Contributions and donations	39,006	1,544	-	40,550
Miscellaneous revenues	132,892	3,000	-	135,892
Total revenues	<u>18,889,788</u>	<u>4,397,855</u>	<u>-</u>	<u>23,287,643</u>
EXPENDITURES				
Current:				
General government	4,334,969	-	-	4,334,969
Public safety	10,319,999	-	-	10,319,999
Transportation	1,435,305	20,023	-	1,455,328
Natural and economic environment	1,302,023	1,775,000	-	3,077,023
Culture and recreation	1,714,310	-	-	1,714,310
Debt service:				
Principal	-	-	650,000	650,000
Interest and other debt costs	-	-	230,243	230,243
Capital outlay	179,128	1,275,594	-	1,454,722
Total expenditures	<u>19,285,734</u>	<u>3,070,617</u>	<u>880,243</u>	<u>23,236,594</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(395,946)</u>	<u>1,327,238</u>	<u>(880,243)</u>	<u>51,049</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	907,000	500,000	880,345	2,287,345
Transfers out	(540,000)	(1,761,345)	-	(2,301,345)
Total other financing sources (uses)	<u>367,000</u>	<u>(1,261,345)</u>	<u>880,345</u>	<u>(14,000)</u>
Net change in fund balances	(28,946)	65,893	102	37,049
Fund balances - beginning	<u>5,215,754</u>	<u>4,382,427</u>	<u>3,321</u>	<u>9,601,502</u>
Fund balances - ending	<u>\$ 5,186,808</u>	<u>\$ 4,448,320</u>	<u>\$ 3,423</u>	<u>\$ 9,638,551</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
Governmental Funds to the Government-wide Statement of Activities**
For the year ended December 31, 2018

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

Net changes in fund balances for governmental funds	\$	37,049
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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.		(324,341)
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Capital outlays	1,454,722	
Other capital asset activity	8,797	
Depreciation	(1,781,940)	
Gain (Loss) on disposal of assets	(5,920)	

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.		723,501
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Bonds payable	650,000	
Unamortized bond premium	11,867	
Deferred inflow related to refunded debt	61,634	

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		408,658
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Investment in joint ventures	418,915	
Deferred inflows	(10,257)	

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.		642,675
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Compensated absences	(127,021)	
Pension obligation	861,986	
Other post employment benefit obligation	(92,290)	

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.		(419,415)
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Change in net position of governmental activities	\$	1,068,127
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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, 2018

	Business-type Activities	Governmental Activities
	Surface Water Fund	Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,277,617	\$ 827,338
Investments	-	972,656
Receivables (net of allowance for uncollectible)	488,803	-
Grants receivable	39,495	4,769
Prepaid items	7,869	159
Total Current Assets	<u>3,813,784</u>	<u>1,804,922</u>
Noncurrent Assets:		
Capital Assets not Being Depreciated:		
Land	150,000	-
Right of Way easements	3,634	-
Construction in Progress	508,975	18,625
Capital Assets Being Depreciated:		
Buildings	-	10,645
Other Improvements	7,820,244	415,435
Machinery and equipment	632,040	5,958,505
Less Accumulated Depreciation	<u>(4,340,708)</u>	<u>(3,229,872)</u>
Total Capital Assets (Net)	<u>4,111,576</u>	<u>3,154,713</u>
Total Noncurrent Assets	<u>4,774,185</u>	<u>3,173,339</u>
TOTAL ASSETS	<u>8,587,969</u>	<u>4,978,261</u>
DEFERRED OUTFLOWS of RESOURCES		
Pension obligation	43,422	7,739
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u>43,422</u>	<u>7,739</u>
LIABILITIES		
Current liabilities:		
Accounts payable	131,986	34,440
Accrued wages	41,206	12,748
Total Current Liabilities	<u>173,192</u>	<u>47,188</u>
Noncurrent Liabilities		
Due within one year	15,195	1,885
Due in more than one year	148,926	16,849
Total Noncurrent Liabilities	<u>164,121</u>	<u>18,734</u>
TOTAL LIABILITIES	<u>337,313</u>	<u>65,922</u>
DEFERRED INFLOWS of RESOURCES		
Pension obligation	126,146	21,617
TOTAL DEFERRED INFLOWS of RESOURCES	<u>126,146</u>	<u>21,617</u>
NET POSITION		
Net Investment in Capital Assets	4,774,186	3,173,339
Unrestricted	<u>3,393,746</u>	<u>1,725,121</u>
TOTAL NET POSITION	<u>\$ 8,167,932</u>	<u>\$ 4,898,460</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, 2018

	Business-type Activities	Governmental Activities
	Surface Water Fund	Internal Service Funds
Operating revenues:		
Charges for services	\$ 3,270,246	\$ 806,160
Total operating revenues	<u>3,270,246</u>	<u>806,160</u>
Operating expenses:		
Operations and maintenance	1,708,468	902,771
Depreciation	<u>253,184</u>	<u>475,623</u>
Total operating expenses	<u>1,961,652</u>	<u>1,378,394</u>
Operating income (loss)	<u>1,308,594</u>	<u>(572,234)</u>
Non-operating revenues (expenses):		
Intergovernmental	130,457	91,582
Investment earnings	-	11,073
Gain(loss) on disposal of property	(49,118)	6,776
Other non-operating	<u>749</u>	<u>(8,312)</u>
Total non-operating revenue (expenses)	<u>82,088</u>	<u>101,119</u>
Income before capital contributions and transfers	1,390,682	(471,115)
Transfers in	-	51,700
Transfers out	<u>(37,700)</u>	<u>-</u>
Change in net position	1,352,982	(419,415)
Net position - beginning	<u>6,814,950</u>	<u>5,317,875</u>
Net position - ending	<u>\$ 8,167,932</u>	<u>\$ 4,898,460</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, 2018

	Business-type Activities	Governmental Activities
	Surface Water Fund	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES		
Cash received from:		
Customers	\$ 3,210,791	\$ -
Interfund services provided	-	806,162
Cash payments to:		
Suppliers for goods and services	(140,953)	(636,224)
Interfund services used	(89,869)	-
Employees	(1,260,916)	(291,118)
Other governments	(157,717)	-
Net cash provided (used) by operating activities	<u>1,561,336</u>	<u>(121,180)</u>
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and transfers from other funds	-	51,700
Operating subsidies and transfers to other funds	(37,700)	-
Net cash provided (used) by noncapital financing activities	<u>(37,700)</u>	<u>51,700</u>
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES		
Proceeds from:		
Capital grants	94,652	86,813
Payments for:		
Capital assets	(822,869)	(246,866)
Net cash provided (used) by capital related financing activities	<u>(728,217)</u>	<u>(160,053)</u>
CASH FLOWS from INVESTING ACTIVITIES		
Interest on investments	-	16,205
Net cash provided by investing activities	<u>-</u>	<u>16,205</u>
Net increase (decrease) in cash and cash equivalents	795,419	(213,328)
Balances - beginning of the year	2,482,198	1,040,665
Balances - end of the year	<u>\$ 3,277,617</u>	<u>\$ 827,337</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	<u>\$ 1,308,594</u>	<u>\$ (572,234)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	253,184	475,623
(Increase) decrease in accounts receivable	(59,454)	-
(Increase) decrease in prepaid items	(7,869)	(159)
(Decrease) increase in accounts payable	71,082	(11,950)
Decrease (increase) in employee benefits	(4,201)	(12,460)
Total Adjustments	<u>252,742</u>	<u>451,054</u>
Net cash provided (used) by operating activities	<u>\$ 1,561,336</u>	<u>\$ (121,180)</u>
Schedule of non-cash capital, investing, and financing activities:		
Depreciation of capital assets	(253,184)	(475,623)
Change in fair market value	-	5,132

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



Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 43,198
Total assets	<u>43,198</u>
LIABILITIES	
Liabilities payable from restricted assets	<u>43,198</u>
Total liabilities	<u>\$ 43,198</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, Waterfront Parking Fund, Street Fund, Hotel/Motel Lodging Tax Fund, Recreation and Cultural Services Fund, Technology Replacement Fund, and the Emergency Medical Services Fund.

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 **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 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 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.

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 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. Other postemployment benefits (OPEB) (Note 7)

For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, and OPEB expense, the City used the alternative measurement valuation tool provided by Washington's Office of the State Actuary.

10. 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.

11. 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. See Note 1, section E9 above, as well as Note 7, for deferred outflows of resources related to OPEB activities.

12. 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.

13. 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, 2018:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable				
Prepaid items	\$ 56,814	\$ -	\$ -	\$ 56,814
Restricted				
Capital	-	4,448,320	-	4,448,320
Culture and recreation	4,800	-	-	4,800
Debt service	-	-	3,423	3,423
Natural environment	105,592	-	-	105,592
Public safety	624,722	-	-	624,722
Tourism	197,800	-	-	197,800
Transportation	75,074	-	-	75,074
Committed				
Culture and recreation	295	-	-	295
Contingency reserve	1,000,000	-	-	1,000,000
Employee benefits	33,095	-	-	33,095
Technology reserve	150,294	-	-	150,294
Assigned				
Operating reserve	2,399,788	-	-	2,399,788
Unassigned	538,534	-	-	538,534
Total fund balance	<u>\$ 5,186,808</u>	<u>\$ 4,448,320</u>	<u>\$ 3,423</u>	<u>\$ 9,638,551</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.

Hotel/Motel Lodging Tax Reserves: The City maintains a Hotel/Motel Lodging Tax reserve in an amount equal to six months revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax 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 Fund Reserves: The City maintains an operating reserve within the Surface Water Fund, an enterprise fund, in an amount equal to no less than 20% of budgeted operating revenues.

Note 3 - Deposits and investments

Deposits

Cash on hand at December 31, 2018 was \$2,600. The carrying amount of the City's deposits in the bank was \$4,668,094 and \$43,198 of that amount was agency fund deposit.

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, 2018, all of the City's deposits with financial institutions were insured or collateralized. The City's 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

Interest Rate Risk

Interest rate risk is the risk the City may face should interest rate variances affect the fair value of investments. 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, 2018 the City had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)	
		Less than 1	1 to 5
U.S. Government Agency Securities	\$ 5,407,177	\$ -	\$ 5,407,177
Snohomish County Local Investment Pool	3,788,740	3,788,740	-
State of Washington Local Government Investment Pool	972,713	972,713	-
	<u>\$ 10,168,630</u>	<u>\$ 4,761,453</u>	<u>\$ 5,407,177</u>

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.

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 attributable to the magnitude of an 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.

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.

Investments in Local Government Investment Pool (LGIP)

The City is a participant in 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 pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. 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 Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tr.wa.gov>.

Investments in Snohomish County Investment Pool

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 1.62 years as of December 31, 2018.

Investments Measured at Fair Value

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, 2018, 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	\$ 5,407,177	\$ -	\$ 5,407,177	\$ -
Snohomish County Local Investment Pool	3,788,740	-	3,788,740	-
State of Washington Local Government	972,713	-	972,713	-
Total investments	\$ 10,168,630	\$ -	\$ 10,168,630	\$ -



Note 4 - Property Taxes

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

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal 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 \$3.10 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2018 was \$1.442 per \$1,000 on an assessed valuation of \$4,745,542,557 for a total regular levy of \$6,847,802. 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 if they are gains or rolled into the function in government-wide statements if they are losses.

A. Capital Assets – Governmental Activities

Capital assets activity for the year ended December 31, 2018 was as follows:

	Balance 01/01/2018	Increases	Decreases	Balance 12/31/2018
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 43,286,843	\$ -	\$ -	\$ 43,286,843
Right of way	10,615,041	45,544	-	10,660,585
Art	287,624	-	-	287,624
Infrastructure - streets	101,539,370	-	-	101,539,370
Construction in progress	2,385,031	1,338,410	-	3,723,441
Total capital assets, not being depreciated	158,113,909	1,383,954	-	159,497,863
Capital assets, being depreciated:				
Buildings	27,942,823	-	-	27,942,823
Other improvements	9,994,494	19,360	-	10,013,854
Machinery & equipment	10,071,932	340,139	(232,612)	10,179,459
Infrastructure	12,810,966	-	-	12,810,966
Total capital assets, being depreciated	60,820,215	359,499	(232,612)	60,947,102
Less accumulated depreciation for:				
Buildings	(7,403,553)	(683,021)	-	(8,086,574)
Other improvements	(5,055,361)	(732,203)	-	(5,787,564)
Machinery & equipment	(6,299,181)	(652,601)	192,087	(6,759,695)
Infrastructure	(8,910,496)	(189,738)	-	(9,100,234)
Total accumulated depreciation	(27,668,591)	(2,257,563)	192,087	(29,734,067)
Total capital assets, being depreciated, net	33,151,624	(1,898,064)	(40,525)	31,213,035
Governmental activities capital assets, net	\$ 191,265,533	\$ (514,110)	\$ (40,525)	\$ 190,710,898



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

Governmental activities:	
General government	\$ 405,451
Public safety	514,644
Transportation	303,539
Natural and economic environment	24,195
Culture and recreation	1,009,733
Total depreciation expense - governmental activities	<u>\$ 2,257,564</u>

B. Capital Assets – Business-Type Activities

	Balance 01/01/2018	Increases	Decreases	Balance 12/31/2018
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	2,989	645	-	3,634
Construction in progress	235,823	273,797	(645)	508,975
Total capital assets, not being depreciated	<u>388,812</u>	<u>274,442</u>	<u>(645)</u>	<u>662,609</u>
Capital assets, being depreciated:				
Other improvements	7,820,244	-	-	7,820,244
Machinery & equipment	258,975	549,820	(176,756)	632,039
Total capital assets, being depreciated	<u>8,079,219</u>	<u>549,820</u>	<u>(176,756)</u>	<u>8,452,283</u>
Less accumulated depreciation for:				
Other improvements	(4,016,126)	(210,897)	-	(4,227,023)
Machinery & equipment	(199,036)	(42,287)	127,639	(113,684)
Total accumulated depreciation	<u>(4,215,162)</u>	<u>(253,184)</u>	<u>127,639</u>	<u>(4,340,707)</u>
Total capital assets, being depreciated, net	<u>3,864,057</u>	<u>296,636</u>	<u>(49,117)</u>	<u>4,111,576</u>
Business-type activities capital assets, net	<u>\$ 4,252,869</u>	<u>\$ 571,078</u>	<u>\$ (49,762)</u>	<u>\$ 4,774,185</u>

Depreciation expense was charged to Business-type functions based on their usage of assets as follows:

Business-type activities:	
Surface Water	\$ 253,184
Total depreciation expense - business type activities	<u>\$ 253,184</u>

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,219,016
Pension assets	3,584,172
Deferred outflows of resources	908,539
Deferred inflows of resources	2,129,865
Pension expense/expenditures	117,464



State Sponsored Pension Plans

Substantially all the City's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employees' Retirement System (PERS)

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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

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:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
September – December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%

The City's actual PERS plan contributions were \$218,387 to PERS Plan 1 and \$323,537 to PERS Plan 2/3 for the year ended December 31, 2018.

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 2018. 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.



Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%

The City's actual contributions to the plan were \$302,830 for the year ended December 31, 2018.

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, 2018, the state contributed \$68,152,127 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$2,286,030

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.

- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.40%)	Current Discount Rate (7.40)%	1% Increase (8.40)%
PERS 1	\$ 1,829,254	\$ 1,488,484	\$ 1,193,309
PERS 2/3	3,341,475	730,533	(1,410,148)
LEOFF 1	(42,327)	(53,521)	(62,943)
LEOFF 2	(469,510)	(3,530,651)	(6,027,366)

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, 2018, the City reported a total pension liability of \$2,219,016 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,488,484
PERS 2/3	730,533
LEOFF 1	(53,521)
LEOFF 2	(3,530,651)

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:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$(53,521)	\$(3,530,651)
State's proportionate share of the net pension asset associated with the employer	(362,015)	(2,286,030)
TOTAL	\$(415,536)	\$(5,816,681)

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.031973%	0.033329%	0.001356%
PERS 2/3	0.039653%	0.042786%	0.003133%
LEOFF 1	0.003761%	0.002948%	-0.000813%
LEOFF 2	0.169315%	0.173905%	0.004590%

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 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, 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 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$204,009
PERS 2/3	28,646
LEOFF 1	2,584
LEOFF 2	(117,775)
TOTAL	\$117,464

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ 89,544	\$ -	\$ 189,130
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	8,546	-	1,999
Changes in proportion and differences between contributions and proportionate share of contributions	-	137,701	-	66,243
Contributions subsequent to the measurement date	106,855	157,463	-	151,058
Total	\$ 106,855	\$ 393,254	\$ -	\$ 408,430

	Deferred inflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ 127,903	\$ -	\$ 81,982
Net difference between projected and actual investment earnings on pension plan investments	59,152	448,289	4,345	617,911
Changes of assumptions	-	207,904	-	506,712
Changes in proportion and differences between contributions and proportionate share of contributions		30,560	-	45,107
Total	\$ 59,152	\$ 814,654	\$ 4,345	\$ 1,251,714

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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2019	\$ 2,588	\$ (35,777)	\$ 4	\$ (63,238)
2020	(12,931)	(133,464)	(980)	(156,796)
2021	(38,802)	(261,064)	(2,670)	(361,476)
2022	(10,007)	(88,280)	(699)	(138,299)
2023	-	(24,280)	-	(50,697)
Thereafter	-	(36,000)	-	(223,834)
Total	\$ (59,152)	\$ (578,865)	\$ (4,345)	\$ (994,340)

Note 7 - Defined Benefit Other Postemployment and Deferred Compensation Plans

Defined Benefit Other Postemployment Benefit (OPEB) Plan

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2018:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	\$ 376,868
OPEB assets	-
Deferred outflows of resources	3,665
Deferred inflows of resources	-
OPEB expenses/expenditures	14,280

OPEB Plan Description

- The LEOFF 1 OPEB plan is administered by the City as a single-employer defined benefit plan and is not administered through a qualifying trust.
- The plan is operated 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, long-term care insurance and reimbursement 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.

- c. Employees covered by benefit terms at December 31, 2019, include one inactive employee. There are zero inactive employees entitled to benefits that are not currently receiving those benefits and there are zero active employees.
- d. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
- e. During the year ended December 31, 2018, the City paid \$8,876 in plan benefits as they became due.

Assumptions and Other Inputs

The following significant assumptions were used in calculating the alternative measurement valuation for the OPEB plan for the plan year ended June 30, 2018:

Assumptions	
<i>Discount rate</i>	
Beginning July 01, 2018	3.58%
Ending June 30, 2018	3.87%
<i>Healthcare trend rates</i>	
Medical costs	Initial rate is ~7.00%, trending down to 5.00% in 2080
Long-term care	4.50%
Medicare Part B premiums	~5.00%
<i>Mortality rates (assumption: 100% male population)</i>	
Base mortality table	RP-2000 Mortality Table
Age setback	1 year healthy/(2) years disabled/blended 50% split healthy/disabled
Mortality improvements	100% Scale BB
Projection period	Generational
<i>Medicare participation rate</i>	100%

The discount rate source is the Bond Buyer General Obligation 20-Bond Municipal Index. Medical and long-term care costs were projected from June 30, 2016 to the measurement date of June 30, 2018 using the healthcare trend rates detailed in the 2016 LEOFF 1 Medical Benefits Actuarial Valuation Report, published by the Washington's Office of the State Actuary. A copy of the report can be found online at: <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>. At the end of 2018 the member age was 79.

Changes in the Total OPEB Liability

LEOFF 1 OPEB Plan	
Total OPEB Liability at 01/01/2018	\$ 372,278
Service Cost	-
Interest	12,933
Changes of benefit terms	-
Changes in experience data & assumptions	(7,529)
Benefit payments	(814)
Other changes	-
Total OPEB Liability at 12/31/2018	\$ 376,868



Since the alternative measurement valuation was used for the OPEB plan was year end of June 30, 2018, procedures were used to roll forward the total OPEB liability to the financial statement date of December 31, 2018.

At December 31, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Payments subsequent to the measurement date	814	-
TOTAL	\$ 814	\$ -

Deferred outflows of resources of \$ 3,665 resulting from payments subsequent to the measurement date will be recognized as reduction of the total OPEB liability in the year ended December 31, 2019. There are no other amounts reported as deferred outflows and deferred inflows of resources related to OPEB.

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.

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 160 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 \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 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

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, 2018:

	2017	2018
Liability - beginning	\$ (7,494)	\$ 851
Claims incurred	8,345	40,059
Claim payments	-	(40,059)
Adjustments	-	(851)
Liability - ending	<u>\$ 851</u>	<u>\$ -</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. 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 was required to maintain a reserve balance in an amount not less than eight weeks of program expenses for active plans. Below is an analysis of claims activity for the two years ended December 31, 2018:

	2017	2018
Liability - beginning	\$ 12,476	\$ 1,291
Claims incurred	63,783	-
Claim payments	(74,968)	(1,291)
Liability - ending	<u>\$ 1,291</u>	<u>\$ -</u>



Note 9 - Lease Obligations

Operating lease

The City leases copy equipment under noncancelable operating leases. Total cost for such leases was \$9,869 for the year ended December 31, 2018. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2019	9,869
2020	9,869
2021	9,347
2022	2,406
Total	<u>\$ 31,491</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.

The City advance refunded part of the outstanding 2009 LTGO in 2017. 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 was removed from the governmental-wide statement of net position. The 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, 2018, 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, 2018, the City had the following general obligation bonds outstanding:

<u>General Obligation Bonds</u>	<u>Sale Date</u>	<u>Original Borrowing</u>	<u>Average Coupon Interest Rate %</u>	<u>Maturity Date</u>	<u>Outstanding Balance 12/31/2018</u>
2009 LTGO Bonds - Community Center	09/10/2009	\$ 12,585,000	3.54%	12/01/2029	\$ 600,000
2017 LTGO Advanced Refunding Bond	02/09/2017	7,980,000	2.40%	12/01/2029	7,800,000
					<u>\$ 8,400,000</u>



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

<u>Year Ending</u> <u>December 31</u>	<u>Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 670,000	\$ 206,700
2020	695,000	185,520
2021	710,000	168,840
2022	730,000	151,800
2023	745,000	134,280
2024-2028	3,995,000	394,920
2029	855,000	20,520
Total	<u>\$ 8,400,000</u>	<u>\$ 1,262,580</u>

Note 11 - Construction and other significant commitments

The City had the following significant contractual obligations on construction projects at December 31, 2018:

<u>Contracting Entity</u>	<u>Project Name</u>	<u>Balance</u>
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	\$ 512,393
Pertee	Engineering Services	58,523
PACE Engineers, Inc.	Decant Facility	35,379
Tuttle Engineering and Management, LLC	61st Place West Retaining Wall Repair	31,358
Tuttle Engineering and Management, LLC	61st Place Culvert Improvement	22,489
Pertee	88th St. SW Pavement Preservation Project	20,870
		<u>\$ 681,012</u>

Note 12 - Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2018:

	<u>Restated Balance 1/1/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2018</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 9,050,000	\$ -	\$ (650,000)	\$ 8,400,000	\$ 670,000
Bond premium	23,733	-	(11,867)	11,866	11,867
Compensated absences	1,160,916	1,560,471	(1,438,345)	1,283,042	154,962
Pension obligation	2,745,917	2,094,096	(2,659,300)	2,180,713	-
Other postemployment benefit obligation	372,278	4,590	-	376,868	-
Governmental activities - long-term liabilities	<u>13,352,844</u>	<u>3,659,157</u>	<u>(4,759,512)</u>	<u>12,252,489</u>	<u>836,829</u>
Business-type activities:					
Compensated absences	83,221	170,224	(127,627)	125,818	15,195
Pension obligation	148,979	124,921	(235,596)	38,304	-
Business-type activities - long-term liabilities	<u>232,200</u>	<u>295,145</u>	<u>(363,223)</u>	<u>164,122</u>	<u>15,195</u>
Total long-term liabilities	<u>\$ 13,585,044</u>	<u>\$ 3,954,302</u>	<u>\$ (5,122,735)</u>	<u>\$ 12,416,611</u>	<u>\$ 852,024</u>



Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end \$15,605 of internal service funds compensated absences and \$3,130 of internal service funds pension obligations are included in the above amounts.

Note 13 - Contingencies and Litigation

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. In the opinion of management, the City's insurance policies are adequate to pay all known or pending claims.

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 Balances and Transfers

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.

Interfund transfers at December 31, 2018 were as follows:

Transfers Out	Transfers In				Total
	General Fund	Debt Service Fund	Capital Projects Fund	Facility Renewal Fund	
General Fund	\$ -	\$ -	\$ 500,000	\$ 40,000	\$ 540,000
Capital Projects Fund	881,000	880,345	-	-	1,761,345
Surface Water Fund	26,000	-	-	11,700	37,700
Total	<u>\$ 907,000</u>	<u>\$ 880,345</u>	<u>\$ 500,000</u>	<u>\$ 51,700</u>	<u>\$ 2,339,045</u>

The General Fund transferred \$500,000 to Capital Projects Fund to support the Boys & Girls Club project. The General Fund transferred \$40,000 to Facility Renewal Fund to fund electric parking stations at Lighthouse Park.

The Capital Projects Fund transferred \$881,000 to General Fund, primarily for the Pavement Preservation Project. The \$880,345 transfer to Debt Service Fund is for general obligation debt payments.

The \$26,000 transfer from Surface Water Fund to General Fund was to recover a portion of the Capital Project Engineer salary and benefits. The remaining transfer of \$11,700 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, Town of 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, 2018 is \$189,218. This value has been recorded in the government-wide statements as an investment in joint venture.

Snohomish County 911

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.

The City of Mukilteo and other Police and Fire entities jointly operate Snohomish County 911. Snohomish County 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of Snohomish County 911 is with a 16-member Board of Directors which is specified in the Interlocal Agreement. Snohomish County 911 takes 911 calls and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this agreement shall be returned to the parties to this agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the City's share was \$824,037 on December 31, 2018.

Complete financial statements for Snohomish County 911 can be obtained from Snohomish County 911's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

SN0911

As of January 1, 2019 SERS merged with Snohomish County 911 (SN0911) and will be known as SN0911 Wireless Technology Department.

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, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May 2014 to add the City of Arlington and in June 2014 to add the City of Stanwood.

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



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

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City's equity share to date is \$1,983.

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 Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 98204 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

Note 16 - Other Disclosures

Accounting and reporting changes

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 75, Accounting and financial reporting for postemployment benefits other than pensions, which became effective for financial statements with fiscal years beginning after June 15, 2017. The statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. This report has been prepared to conform to this newly adopted GASB statement, which resulted in a negative \$86,886 change in accounting principle reported on the government-wide statement of net position.

Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

Streets:

The City has taken a pragmatic approach with pavement management practices associated with public streets. City performed a city-wide pavement condition assessment in 2014, 2016, and 2018 and updated the Pavement Management Program (PMP). The PMP 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. Streets 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 2014, 2016 & 2018

Condition Rating	2014		2016		2018	
	Miles	Percentage	Miles	Percentage	Miles	Percentage
Excellent	7.0	11.5%	-	0.0%	6.5	10.4%
Very Good	43.8	71.9%	51.8	86.8%	46.4	74.4%
Good	7.1	11.7%	5.2	8.7%	7.2	11.5%
Poor	2.3	3.8%	2.4	4.0%	2.0	3.2%
Very Poor	0.7	1.1%	0.3	0.5%	0.3	0.5%
Total	60.9		59.7		62.4	

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 62.4 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. The table below shows the City's pavement mileage by functional classification:

Table 2
Pavement Mileage by Functional Class

Functional Classification	Centerline Miles
Arterial	2.3
Urban Minor Arterial	0.8
Collector	11.0
Residential/Local	48.3
Grand Total	62.4

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 more costly 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 2014 to 2018.

Year	2018	2017	2016	2015	2014
Planned	\$ 3,244,600	\$ 1,045,000	\$ 882,000	\$ 350,000	\$ 317,000
Actual	907,801	722,108	350,022	412,831	16,200
Variance	\$ 2,336,799	\$ 322,892	\$ 531,978	\$ (62,831)	\$ 300,800
	72.02%	30.90%	60.31%	-17.95%	94.89%



Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended December 31, 2018

	General Fund			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	\$ 6,847,800	\$ 6,847,800	\$ 6,818,338	\$ (29,462)
Sales taxes	3,750,000	3,750,000	3,593,358	(156,642)
Other taxes and assessments	3,032,000	3,032,000	2,883,777	(148,223)
Licenses and permits	1,481,900	1,481,900	1,440,790	(41,110)
Intergovernmental	1,122,800	1,138,700	1,284,707	146,007
Charges for services	1,032,475	1,032,475	1,189,287	156,812
Fines and forfeitures	181,550	181,550	165,608	(15,942)
Rents and leases	1,121,200	1,121,200	1,191,569	70,369
Investment earnings	51,500	51,500	150,456	98,956
Contributions and donations	13,000	38,000	39,006	1,006
Miscellaneous revenues	89,500	119,500	132,892	13,392
Total revenues	<u>18,723,725</u>	<u>18,794,625</u>	<u>18,889,788</u>	<u>95,163</u>
EXPENDITURES				
General government	3,847,639	3,949,315	4,334,969	385,654
Public safety	10,357,911	10,382,911	10,319,999	(62,912)
Transportation	1,839,000	1,839,000	1,435,305	(403,695)
Natural and economic environment	1,688,140	1,713,140	1,302,023	(411,117)
Culture and recreation	1,759,865	1,759,865	1,714,310	(45,555)
Capital outlay	49,000	64,900	179,128	114,228
Total expenditures	<u>19,541,555</u>	<u>19,709,131</u>	<u>19,285,734</u>	<u>(423,397)</u>
Excess of revenues over expenditures	<u>(817,830)</u>	<u>(914,506)</u>	<u>(395,946)</u>	<u>518,560</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,234,000	1,234,000	907,000	(327,000)
Transfers out	<u>(540,000)</u>	<u>(540,000)</u>	<u>(540,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>694,000</u>	<u>694,000</u>	<u>367,000</u>	<u>(327,000)</u>
Net change in fund balance	<u>(123,830)</u>	<u>(220,506)</u>	<u>(28,946)</u>	<u>191,560</u>
Fund balance - beginning	<u>5,215,754</u>	<u>5,215,754</u>	<u>5,215,754</u>	<u>-</u>
Fund balance - ending	<u>\$ 5,091,924</u>	<u>\$ 4,995,248</u>	<u>\$ 5,186,808</u>	<u>\$ 191,560</u>



Schedule of Changes in Total OPEB Liability and Related Ratios

LEOFF 1 Other Postemployment Benefits Plan For the year ended December 31, 2018 Last 10 Fiscal Years*

	<u>2018</u>
Total OPEB liability - beginning	\$ 372,278
Service cost	-
Interest	12,933
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(7,529)
Benefit payments	(814)
Other changes	-
Total OPEB liability - ending	<u>\$ 376,868</u>
Covered-employee payroll	N/A
Total OPEB liability as a % of covered payroll	N/A

Notes to Schedule:

- * Until a full 10-year trend is compiled, only information for those years available is presented.
- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.



City of Mukilteo
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.03333%	0.03197%	0.03279%	0.033352%	0.031653%
Employer's proportionate share of the net pension liability	\$ 1,488,484	\$ 1,517,145	\$ 1,760,924	\$ 1,744,620	\$ 1,594,535
Covered payroll	\$ 3,655,663	\$ 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	40.72%	38.31%	45.51%	47.66%	48.46%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	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
LEOFF 1
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.00295%	0.00376%	0.00470%	0.004645%	0.004607%
Employer's proportionate share of the net pension liability	\$ (53,521)	\$ (57,063)	\$ (48,382)	\$ (55,983)	\$ (55,873)
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	144.42%	135.96%	123.74%	127.36%	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
PERS 2/3
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.04279%	0.03965%	0.04064%	0.039290%	0.036539%
Employer's proportionate share of the net pension liability	\$ 730,533	\$ 1,377,752	\$ 2,046,192	\$ 1,403,854	\$ 738,585
Covered payroll	\$ 3,655,663	\$ 3,900,083	\$ 3,813,595	\$ 3,515,670	\$ 3,128,153
Employer's proportionate share of the net pension liability as a percentage of covered payroll	19.98%	35.33%	53.66%	39.93%	23.61%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	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
LEOFF 2
As of June 30, 2018
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.17391%	0.16932%	0.17509%	0.176909%	0.185026%
Employer's proportionate share of the net pension liability	\$ (3,530,651)	\$ (2,349,543)	\$ (1,018,376)	\$ (1,818,271)	\$ (2,455,375)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (2,286,030)	\$ (1,524,105)	\$ (663,907)	\$ (1,202,242)	\$ -
Total	\$ (5,816,681)	\$ (3,873,648)	\$ (1,682,283)	\$ (3,020,513)	\$ (2,455,375)
Covered payroll	\$ 5,718,957	\$ 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	-61.74%	-44.28%	-19.21%	-35.31%	-48.99%
Plan fiduciary net position as a percentage of the total pension liability	118.50%	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.



**City of Mukilteo
Schedule of Employer Contributions
PERS 1**

As of December 31, 2018		Last 10 Fiscal Years*			
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 218,387	\$ 215,055	\$ 186,362	\$ 158,036	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(218,387)	(215,055)	(186,362)	(158,036)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,451,002	\$ 4,006,267	\$ 3,831,894	\$ 3,505,649	\$ 3,217,521
Contributions as a percentage of covered payroll	6.33%	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
PERS 2/3**

As of December 31, 2018		Last 10 Fiscal Years*			
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 323,537	\$ 281,188	\$ 253,930	\$ 209,660	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(323,537)	(281,188)	(253,930)	(209,660)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,451,002	\$ 3,973,885	\$ 3,778,534	\$ 3,419,503	\$ 3,058,441
Contributions as a percentage of covered payroll	9.38%	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
LEOFF 1**

As of December 31, 2018		Last 10 Fiscal Years*			
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily or contractually required contributions	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered 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
LEOFF 2**

As of December 31, 2018		Last 10 Fiscal Years*			
	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 302,830	\$ 283,092	\$ 271,069	\$ 263,284	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(302,830)	(283,092)	(271,069)	(263,284)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,725,591	\$ 5,236,373	\$ 5,134,770	\$ 4,976,657	\$ 4,792,253
Contributions as a percentage of covered payroll	5.29%	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	
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Toll-free Citizen Hotline	(866) 902-3900
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