



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Mountlake Terrace

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

Published November 25, 2020

Report No. 1027359





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

November 25, 2020

Mayor and City Council
City of Mountlake Terrace
Mountlake Terrace, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mountlake Terrace January 1, 2018 through December 31, 2018

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2017 through December 31, 2017	Report Ref. No.: 1023500	Finding Ref. No.: 2017-001
Finding Caption: <p>The City's internal controls over financial statement preparation were not sufficient to ensure accurate and complete financial reporting.</p>		
Background: <p>City management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting.</p> <p>In our previous audit, we identified material weaknesses in internal controls over financial reporting that hindered the City's ability to produce accurate financial statements. During the current audit, the City experienced turnover in key accounting positions and although it has taken steps to improve its financial reporting process, the City has been unable to correct all deficiencies. As a result, we identified misstatements that we consider to be material weaknesses in controls over financial reporting.</p>		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <p><i>The City took multiple steps to ensure that internal controls over financial reporting were adequate to produce accurate financial statements. They included adding an accountant position, establishing procedures that ensured timely and accurate processes were being performed monthly and at year-end, and continuing to utilize professional service contracts to assist when appropriate.</i></p>		

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

**City of Mountlake Terrace
January 1, 2018 through December 31, 2018**

Mayor and City Council
City of Mountlake Terrace
Mountlake Terrace, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, 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 19, 2020.

As discussed in Note 1 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*.

As discussed in Note 4-G to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 4-G.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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 19, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mountlake Terrace January 1, 2018 through December 31, 2018

Mayor and City Council
City of Mountlake Terrace
Mountlake Terrace, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, 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 11.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mountlake Terrace, as of December 31, 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.

As discussed in Note 4-G to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to this matter are also described in Note 4-G. 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 11 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 19, 2020 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 19, 2020

FINANCIAL SECTION

City of Mountlake Terrace 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

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2018

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of 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 Fiduciary Net Position – Fiduciary Funds – 2018

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Street Construction Fund – 2018

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

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

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



Within this section of the City of Mountlake Terrace, Washington ("the City") annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2018. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, schedules, and note disclosures following this section.

Financial Highlights

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$53,720,900 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$50,077,149 includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$7,985,788 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of (\$7,019,370) represents the portion available to maintain the City's continuing obligations to citizens and creditors. The significant negative balance is due to outstanding pension and OPEB liabilities.
- The City's governmental funds reported a total ending fund balance of \$20,948,099 this year. This compares to the prior year ending fund balance of \$6,133,588, showing an increase of \$14,814,511 or 242% during the current year.
- Overall, the City continues to maintain a strong financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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



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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

This section includes the required supplementary information for the State Sponsored Plans.



Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$53,720,900. The following table provides a summary of the City's net position:

Summary of Net Position at December 31, 2018

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current assets	\$ 24,032,567	\$ 8,602,463	\$ 4,741,274	\$ 4,049,676	\$ 28,773,841	\$ 12,652,139
Capital assets	26,364,279	26,906,658	37,706,189	38,969,140	64,070,468	65,875,798
Noncurrent assets	3,463,949	2,384,692	2,972,531	3,663,278	6,436,480	6,047,970
Total assets	53,860,795	37,893,813	45,419,994	46,682,094	99,280,789	84,575,907
Total Deferred Outflows	854,753	633,226	97,054	104,911	951,807	738,137
Liabilities:						
Current liabilities	2,212,943	1,509,325	1,920,522	1,298,648	4,133,465	2,807,973
Noncurrent liabilities	26,175,277	9,438,661	14,278,618	15,440,844	40,453,895	24,879,505
Total liabilities	28,388,220	10,947,986	16,199,140	16,739,492	44,587,360	27,687,478
Total Deferred Inflows	1,743,300	1,166,801	181,036	119,798	1,924,336	1,286,599
Net position:						
Net investment in capital assets	25,326,863	25,561,658	24,750,286	25,813,342	50,077,149	51,375,000
Restricted	6,276,535	4,502,260	1,709,253	3,663,278	7,985,788	8,165,538
Unrestricted (2017 restated)	(7,019,370)	(3,651,666)	2,677,333	451,095	(4,342,037)	(3,200,571)
Total net position	\$ 24,584,028	\$ 26,412,252	\$ 29,136,872	\$ 29,927,715	\$ 53,720,900	\$ 56,339,967

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 10.9 to 1 as compared to 5.7 to 1 at December 31, 2017. The current ratio for the business-type activities at December 31, 2018 is 2.5 to 1 as compared to 3.1 to 1 at December 31, 2017. For the City overall, the current ratio is 7 to 1 as compared to 4.5 to 1 at December 31, 2017. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$4,312,770 for governmental activities and decreased by \$790,843 for business-type activities. The City's overall financial position increased during calendar year 2018 by \$3,521,927.

Note that over 100% of the governmental activities' net position is invested in capital assets. The City uses these capital assets to provide services to its citizens. 85% of business-type net position is invested in capital assets. Capital assets in the business-type activities provide water, sewer and storm water services, but they also generate revenues for this fund. Overall, 93% of the City's total net position is included in capital assets.



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

Summary of Changes in Net Position					
	Governmental Activities		Business-type Activities		Total
	2018	2017	2018	2017	
Revenues:					
Program:					
Charges for services	\$ 6,283,385	\$ 5,366,306	\$ 8,674,661	\$ 8,622,621	\$ 14,958,046
Operating grants	1,110,000	979,134	70,848	14,850	1,180,848
Capital grants	367,586	1,392,756	808,639	362,264	1,755,020
General:					-
Taxes	14,956,572	13,724,007	-	-	14,956,572
Other	418,349	224,502	166,233	173,911	584,582
Total revenues	23,135,892	21,686,705	9,720,381	9,173,646	32,856,273
Program Expenses:					
General government	2,375,265	1,853,507	-	-	2,375,265
Judicial	731,974	707,651	-	-	731,974
Public safety	7,870,559	9,002,593	-	-	7,870,559
Physical environment	887,165	1,071,871	-	-	887,165
Transportation	2,522,969	2,311,050	-	-	2,522,969
Economic environment	566,177	482,595	-	-	566,177
Culture and recreation	3,487,344	3,428,922	-	-	3,487,344
Interest	381,669	52,172	-	-	381,669
Sewer utility	-	-	4,141,439	4,027,039	4,141,439
Water utility	-	-	4,044,779	3,823,420	4,044,779
Storm water utility	-	-	2,325,006	1,971,947	2,325,006
Total expenses	18,823,122	18,910,361	10,511,224	9,822,406	29,334,346
Revenues over (under) expenses	4,312,770	2,776,344	(790,843)	(648,760)	3,521,927
Beginning net position	26,412,252	23,635,908	29,927,715	30,576,475	56,339,967
Prior Period Adjustment	(6,140,994)	-	-	-	(6,140,994)
Ending net position	\$ 24,584,028	\$ 26,412,252	\$ 29,136,872	\$ 29,927,715	\$ 53,720,900



GOVERNMENTAL ACTIVITIES-REVENUES

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. The total 2018 tax revenues were \$1,232,565 more than those reported in 2017. The most significant increase was in property taxes, which increased by \$536,161 or 9.5%. Real estate taxes were \$301,896 or 29.8% more than in 2017. Sales taxes increased \$238,147 or 9.2% over 2017. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

In total, taxes make up 64.6% of the total revenues stream as compared to 63.3% in 2017. Property taxes make up 26.7% of revenues, as compared to 26% in 2017 and the utility taxes make up 13.1% of total revenues as compared to 14.3% in 2017.

The operating grants for general government included the following:

- City Assistance from the State of Washington: \$122,785
- PUD Privilege Tax in lieu of Property Tax: \$99,279
- Other intergovernmental contributions: \$65,572

The operating grants for transportation included:

- Motor Vehicle Excise Taxes: \$367,307
- Traffic Safety Grants: \$14,980

The operating grants for public safety included:

- Liquor and Cannabis Board Taxes from the State of Washington: \$374,099

The capital grants for transportation included the following:

- Indirect Federal Grants: \$101,045
- Interlocal County Grant: \$80,000
- Motor Vehicle Excise Taxes: \$124,740
- Developer Capital Contributions: \$29,191
- Verdant Grant – Bike Link Program: \$32,608

Note that program revenues cover 42.0% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 58.0% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.



GOVERNMENTAL FUNCTIONAL EXPENSES

Of the City's governmental activities functions 41.8% of the total costs relates to public safety in 2018, compared to 48% in 2017. Culture and recreation expenses make up 18.5% as compared to 18.1% in 2017.

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	\$ 2,375,265	\$ 1,853,507	\$ 386,272	\$ (761,492)
Judicial	731,974	707,651	570,780	531,878
Public safety	7,870,560	9,002,593	6,931,181	8,638,796
Physical environment	887,165	1,071,871	887,165	1,071,871
Transportation	2,522,968	2,311,050	1,202,508	229,465
Economic environment	566,177	482,595	(248,893)	(128,327)
Culture and recreation	3,487,344	3,428,922	951,469	1,537,802
Interest	381,669	52,172	381,669	52,172
Total	<u>\$ 18,823,122</u>	<u>\$ 18,910,361</u>	<u>\$ 11,062,151</u>	<u>\$ 11,172,165</u>



BUSINESS-TYPE ACTIVITIES ANALYSIS

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

Fund	Operating Income (Loss)		%
	2018	2017	Change
Sewer Utility	\$ (453,074)	\$ (377,649)	20%
Water Utility	(629,689)	(419,047)	50%
Storm Water Utility	(232,724)	118,040	-297%
Total	\$ (1,315,487)	\$ (678,656)	94%

The following analysis is provided for the major enterprise funds.

Sewer Utility Fund – Revenues from charges for services increased \$24,132 or .7% in 2018 over 2017.

Operation and maintenance costs increased \$97,739 or 2.8% above the 2017 amount. Depreciation expense increased \$1,818 or .3% in 2018. At December 31, 2018, net position totals \$8,178,324. Of this amount, \$5,447,033 or 66.6% represents the net investment in capital assets.

Water Utility Fund – Revenues from charges for services increased \$24,547 or .8%.

Operations and maintenance costs increased \$208,084 or 7.1% above the 2017 amount. Depreciation expense increased \$27,105 or 4.1% from 2017.

At December 31, 2018, the net position totaled \$14,984,916. Of this amount, \$13,809,000 or 92.2% represents the net investment in capital assets.

Storm Water Utility Fund - Charges for services increased \$3,361 or .2% over 2017.

Operations and maintenance expenses increased \$361,643 or 26.3% from the 2017 amount. Depreciation expense decreased \$7,518 or 2.1% from 2017.

At December 31, 2018, the net position total was \$6,420,624. Of this amount, \$5,494,253 or 85.6 % represents the net investment in capital assets.

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$20,948,099 as compared to the amount of \$6,133,588 at December 31, 2017.

The restricted amount at December 31, 2018 was \$15,891,506, relating primarily to capital improvements.

Over \$2.6 million is assigned, primarily for working capital and for revenue fluctuations.

The total ending fund balances of governmental funds show an increase of approximately \$14.8 million compared to an increase of \$1.8 million at December 31, 2017. The significant increase is primarily due to issuance of long-term debt.

**Major Governmental Funds**

General Fund - The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance increased by \$864,897 or 30.0% in 2018. This increase relates primarily to taxes exceeding 2017 revenue by \$919 thousand. In calendar year 2017, the fund balance increased \$990,567 or 52.3%.

Total revenues increased \$1,341,024 or 7.5% in 2018. Total taxes increased \$918,642 or 7.5% from 2017.

Licenses and permits decreased by \$24,385 or 1.7% from 2018 to 2017.

In total, intergovernmental revenue increased \$52,373 or 8.8% above the 2017 amount.

Total charges for services increased 382,902 or 12.6%, primarily due to an increase in development activity within the city.

Investment earnings increased by \$33,150 or 104.4% due to an increase in cash on hand and more favorable market conditions. Most other revenues were consistent with calendar year 2017.

In 2018, total expenditures increased \$1,130,966 or 7.1% above the 2017 amount. General government expenditures increased \$424,336 or 22.1%. This increase is due to an increase in legal services and additional staffing.

Economic environment expenditures increased \$112,073 or 19.3% above the 2017 amount and was due to an increase in economic development services provided.

All other functional areas had modest expenditure increases of less than 6% each from 2017 to 2018.

Street Construction Fund – During 2018, this fund recognized \$1,141,935 in revenues, primarily intergovernmental revenue and traffic impact fees. Intergovernmental revenue decreased \$648,447 or 65.7% from 2017, however traffic impact fees increased by \$263,430 or 131.7%. This fund expended \$1.1 million for construction projects or \$791,901 less than in 2017.

This fund reported ending fund balance of \$1,009,012 or an increase of \$372,676 above the December 31, 2017 amount.

Capital Improvements Fund – In 2018, the City recognized \$684,491 from various revenue sources. This fund expended \$1,027,275 during 2018. The fund received proceeds from issuance of General Obligation Debt of \$11,210,000 plus a premium of \$1,006,554. At December 31, 2018, the City reported a fund balance of \$13,738,616 as compared to \$1,249,327 at December 31, 2017. The significant increase in fund balance is due to debt proceeds which have not yet been spent.

Budgetary Highlights – General Fund

The General Fund's revenue budget was amended upward in calendar year 2018 by \$970,500. This adjustment primarily was to increases in Taxes, Charges for Services and Licenses and Permits revenue budgets and reflected the upswing in development related activity within the city.

In total, revenues were above budget by \$237,441. Tax revenues account for substantially all the difference.

In total, the City realized 101% of estimated revenues.

The General Fund expenditure budget was amended upward \$1,365,704 or 7.7%. \$400,000 was for capital projects, \$400,000 was for professional service contracts for legal and development related services, and \$300,000 was for additional staffing.

The total general government budget was under spent by \$646,842 or 3.7%.

Culture and recreation was under spent by \$235,394 or 6.5% and public safety was under spent by \$279,928 or 3%. These were both primarily due to unstaffed funded positions.



Capital Assets and Debt Administration

Capital Assets

The net book value of the City's capital assets decreased by 2.7% from 2018 to 2017. Governmental assets decreased by 2% and business-type assets decreased by 3.2%. See Note 3-D for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity:

	Governmental Activities		Business Activities		Total	
	2018	2017	2018	2017	2018	2017
Nondepreciable assets:						
Land	\$ 1,855,003	\$ 1,855,003	\$ 2,128,469	\$ 2,128,469	\$ 3,983,472	\$ 3,983,472
Construction in progress	4,241,094	2,916,163	542,465	516,260	4,783,559	3,432,423
Total nondepreciable assets	6,096,097	4,771,166	2,670,934	2,644,729	8,767,031	7,415,895
Depreciable assets:						
Buildings	13,341,967	13,341,967	2,744,174	2,744,174	16,086,141	16,086,141
Improvements	1,545,086	1,545,086	21,168	21,168	1,566,254	1,566,254
Machinery and equipment	6,160,762	6,060,089	586,088	586,088	6,746,850	6,646,177
Infrastructure	34,657,557	34,533,918	53,467,651	53,164,229	88,125,208	87,698,147
Intangibles	-	-	1,827,239	1,827,239	1,827,239	1,827,239
Total depreciable assets	55,705,372	55,481,060	58,646,320	58,342,898	114,351,692	113,823,958
Less accumulated depreciation	35,437,192	33,345,568	23,611,065	22,018,487	59,048,257	55,364,055
Book value - depreciable assets	20,268,180	22,135,492	35,035,255	36,324,411	55,303,435	58,459,903
Percentage depreciated	64%	60%	40%	38%	52%	49%
Book value - all assets	\$ 26,364,277	\$ 26,906,658	\$ 37,706,189	\$ 38,969,140	\$ 64,070,466	\$ 65,875,798

At December 31, 2018, the depreciable capital assets for governmental activities were 64% depreciated compared to the December 31, 2017 percentage of 60%.

At December 31, 2018, the major projects included in the governmental activities construction in progress include:

- Main Street Construction and Design: \$3,593,360
- Street Lights for Town Center: \$98,002
- Civic Campus Design and Construction: \$430,041

Governmental activities infrastructure increased approximately \$124 thousand consisting primarily of:

- Bikelink Project: \$86,520

With the City's business-type activities, 40% of the asset values were depreciated at December 31, 2018, as compared to 38% at December 31, 2017.

At December 31, 2018, the major projects included in the business-type activities construction in progress include:

- Main Street: \$304,673
- SCADA Design: \$160,028

Business-type activities infrastructure increased approximately \$303 thousand consisting primarily of:

- Water, Sewer and Stormwater Contributed Capital: \$248,659



Long-Term Liabilities

The following table reports outstanding long-term liabilities at both December 31, 2018 and 2017.

Outstanding Borrowings

	Governmental Activities		Business-type Activities		Totals	
	2018	2017 (restated)	2018	2017	2018	2017 (restated)
General obligation bonds	\$ 13,159,494	\$ 1,315,000	\$ -	\$ -	\$ 13,159,494	\$ 1,315,000
Revenue bonds - net	-	-	14,291,249	15,082,909	14,291,249	15,082,909
Public works trust fund loan	-	30,000	379,333	478,317	379,333	508,317
Total	\$ 13,159,494	\$ 1,345,000	\$ 14,670,582	\$ 15,561,226	\$ 27,830,076	\$ 16,906,226

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

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

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

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

Economic Conditions Affecting the City

2018 was another successful year for the City - a year of maintaining strong finances, delivering a high standard of services to the community, and seeing the realization of the City Council's vision for a revitalized Town Center.

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

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



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

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

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

To expand available revenues, the City continues to proactively pursue and obtain state and federal funding to upgrade our aging infrastructure. This includes streets, parks, sidewalks, facilities, utilities and open space areas. In 2017, for example, the City used grants to design and begin construction on improvements to Main Street and to make street sidewalk improvements.

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

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

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

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

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

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

The current level of development activity in Mountlake Terrace reflects very positively upon our community. The City Council's actions in 2007 are bearing fruit in terms of numerous development projects completed or underway in the Town Center, adding over 245 housing units and more than 18,000 square feet of commercial space in this redeveloping neighborhood. Throughout the City, the value of new construction in 2018 increased by a little over \$15 million.

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

Contacting the City's Financial Management

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

City of Mountlake Terrace
Statement of Net Position
December 31, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents (Note 3-A)	\$ 4,067,328	\$ 663,501	\$ 4,730,829
Investments (Note 3-A)	17,417,552	3,304,658	20,722,210
Receivables:			
Accounts	348,679	1,172,203	1,520,882
Taxes	1,552,851	-	1,552,851
Intergovernmental	173,156	47,905	221,061
Internal balances	446,992	(446,992)	-
Inventory	26,009	-	26,009
Total Current Assets	24,032,567	4,741,274	28,773,841
Noncurrent Assets			
Investment in joint venture	956,842	-	956,842
Restricted assets: cash and cash equivalents	-	1,257,850	1,257,850
Restricted assets: investments	-	1,714,681	1,714,681
Net pension asset	2,507,107	-	2,507,107
Capital assets (Note 3-D)			
Nondepreciable	6,096,097	2,670,934	8,767,031
Depreciable, net	20,268,182	35,035,255	55,303,437
Total Noncurrent Assets	29,828,228	40,678,720	70,506,948
Total Assets	53,860,795	45,419,994	99,280,789
Deferred Outflow of Resources			
Related to pensions	637,167	97,054	734,221
Related to OPEB	217,586	-	217,586
Total Deferred Outflow of Resources	854,753	97,054	951,807
Liabilities			
Current Liabilities			
Accounts payable	990,688	875,406	1,866,094
Wages payable	342,357	60,789	403,146
Intergovernmental payable	188,994	32,356	221,350
Deposits payable	47,139	-	47,139
Compensated absences payable	171,043	31,328	202,371
Unearned revenue	52,599	-	52,599
Public trust fund loan payable	-	98,984	98,984
Limited tax general obligation bonds payable	260,000	-	260,000
General obligation bonds payable	139,120	-	139,120
Revenue bonds payable	-	821,659	821,659
Total Current Liabilities	2,191,940	1,920,522	4,112,462
Long-Term Liabilities (net of current portion): (Note 3-F)			
Compensated absences payable	684,171	125,309	809,480
Net pension liability	2,385,393	403,368	2,788,761
Other postemployment benefits payable (Note 3-J)	10,366,342	-	10,366,342
Public trust fund loan payable	-	280,349	280,349
Limited tax general obligation bonds payable	270,000	-	270,000
General obligation bonds payable	12,490,374	-	12,490,374
Revenue bonds payable	-	13,469,592	13,469,592
Total Long-term Liabilities	26,196,280	14,278,618	40,474,898
Total Liabilities	28,388,220	16,199,140	44,587,360
Deferred Inflow of Resources			
Related to pensions	1,743,300	181,036	1,924,336
Total Deferred Inflow of Resources	1,743,300	181,036	1,924,336
Net Position			
Net investment in capital assets (Note 3-J)	25,326,863	24,750,286	50,077,149
Restricted for:			
Capital projects	3,739,438	-	3,739,438
Debt service	-	1,709,253	1,709,253
Tourism	29,990	-	29,990
Pensions	2,507,107	-	2,507,107
Unrestricted	(7,019,370)	2,677,333	(4,342,037)
Total Net Position	\$ 24,584,028	\$ 29,136,872	\$ 53,720,900

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Activities
For the Year Ended December 31, 2018

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities
Primary Government						
Governmental Activities						
General government	2,375,265	\$ 1,700,357	\$ 288,636	\$ -	\$ (386,272)	\$ (386,272)
Judicial	731,974	161,194	-	-	(570,780)	(570,780)
Public safety	7,870,559	500,301	439,077	-	(6,931,181)	(6,931,181)
Physical environment	887,165	-	-	-	(887,165)	(887,165)
Transportation	2,522,969	570,588	382,287	367,586	(1,202,508)	(1,202,508)
Economic environment	566,177	815,070	-	-	248,893	248,893
Culture and recreation	3,487,344	2,535,875	-	-	(951,469)	(951,469)
Interest	381,669	-	-	-	(381,669)	(381,669)
Total Governmental Activities	18,823,122	6,283,385	1,110,000	367,586	(11,062,151)	(11,062,151)
Business-Type Activities:						
Sewer Utility	4,141,439	3,647,039	-	380,005	-	(114,395)
Water Utility	4,044,779	3,174,693	-	413,174	-	(456,912)
Storm Water Utility	2,325,006	1,852,929	70,848	15,460	-	(385,769)
Total Business-Type Activities	10,511,224	8,674,661	70,848	808,639	-	(957,076)
Total - Primary Government	\$ 29,334,346	\$ 14,958,046	\$ 1,180,848	\$ 1,176,225	(11,062,151)	(12,019,227)
General Revenues						
Property taxes levied for:						
General government purposes					6,185,048	6,185,048
Sales taxes					2,813,915	2,813,915
Utility taxes					3,022,193	3,022,193
Excise taxes					1,141,756	1,141,756
Real estate excise taxes					1,313,842	1,313,842
Other taxes					479,818	479,818
Gain on disposition of capital assets					5,876	5,876
Investment earnings					234,888	401,121
Miscellaneous					177,585	177,585
Total General Revenues					15,374,921	15,541,154
Change in Net Position					4,312,770	3,521,927
Net Position Beginning of Year					26,412,252	29,927,715
Prior Period Adjustment					(6,140,994)	(6,140,994)
Net Position Beginning of Year (Restated)					20,271,258	50,198,973
Net Position End of Year					\$ 24,584,028	\$ 53,720,900

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Balance Sheet
Governmental Funds
December 31, 2018

	<u>General</u>	<u>Street Construction</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 607,695	\$ 209,449	\$ 2,590,689	\$ 449,779	\$ 3,857,612
Investments	2,540,086	731,102	11,310,341	1,934,180	16,515,709
Receivables:					
Accounts	344,727	-	3,952	-	348,679
Taxes	1,380,993	51,160	-	120,698	1,552,851
Intergovernmental	91,390	71,378	-	3,004	165,772
Prepayments	-	-	-	-	-
Inventory	26,009	-	-	-	26,009
Total Assets	<u>\$ 4,990,900</u>	<u>\$ 1,063,089</u>	<u>\$ 13,904,982</u>	<u>\$ 2,507,661</u>	<u>\$ 22,466,632</u>
Liabilities					
Accounts payable	\$ 479,674	\$ 46,468	\$ 164,588	\$ 44,835	\$ 735,565
Wages payable	314,557	7,609.00	1,742	11,905	335,813
Intergovernmental payable	188,946	-	36	12	188,994
Unearned revenue	52,599	-	-	-	52,599
Deposits payable	47,139	-	-	-	47,139
Total Liabilities	1,082,915	54,077	166,366	56,752	1,360,110
Deferred Inflow of Resources					
- Property Taxes	<u>158,418</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>158,423</u>
Total Liabilities and Deferred Inflow of Resources	<u>1,241,333</u>	<u>54,077</u>	<u>166,366</u>	<u>56,757</u>	<u>1,518,533</u>
Fund Balances					
Nonspendable	26,009	-	-	-	26,009
Restricted	-	761,474	13,473,012	1,657,020	15,891,506
Committed	-	-	-	273,684	273,684
Assigned	1,643,799	247,538	265,604	520,200	2,677,141
Unassigned	2,079,759	-	-	-	2,079,759
Total Fund Balances	<u>3,749,567</u>	<u>1,009,012</u>	<u>13,738,616</u>	<u>2,450,904</u>	<u>20,948,099</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,990,900</u>	<u>\$ 1,063,089</u>	<u>\$ 13,904,982</u>	<u>\$ 2,507,661</u>	<u>\$ 22,466,632</u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2018

Total Governmental Fund Balances	\$	20,948,099
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**Amounts reported for governmental activities in the
statement of net position are different because:**

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds (exclusive of internal service funds' capital assets).

Cost of capital assets	\$	57,273,900	
Less accumulated depreciation		(32,596,287)	24,677,613

The investment in joint ventures is not reported at the fund financial reporting level but is reported on the government-wide statement of net position.			956,842
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes.			158,423
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Deferred inflows and outflows for pensions and OPEB reported on the government-wide statement of position but not reported on the governmental fund balance sheet.			(869,221)
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The net pension assets are not available to retire current year expenditures, therefore they are not reported on the governmental fund balance sheet.			2,507,107
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The internal service fund is used by management to charge the costs of the equipment rental to individual funds. The assets and liabilities of the internal service funds are included in governmental activities column on the government-wide statement of net position.			2,703,044
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The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.			446,992
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Liabilities not due and payable in the current period and therefore are not reported in the governmental fund balance sheets but are reported on the government-wide statement of net position.

Limited tax general obligation bonds payable	\$	(530,000)	
General obligation refunding bonds payable		(12,629,494)	
Interest Payable		(228,631)	
Other postemployment benefits payable		(10,366,342)	
Net Pension Liability		(2,348,196)	
Compensated absences payable		(842,208)	(26,944,871)

Net Position Of Governmental Activities	\$	24,584,028
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See accompanying notes to the basic financial statements	\$	0
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City of Mountlake Terrace
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	General	Street Construction	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 13,245,141	333,353	\$ -	\$ 1,337,497	\$ 14,915,991
Intergovernmental	649,025	338,394	-	367,307	1,354,726
Licenses and permits	1,443,959	-	-	-	1,443,959
Charges for services	3,417,974	463,440	381,244	107,148	4,369,806
Fines and forfeitures	161,194	-	-	-	161,194
Investment earnings	64,906	6,748	142,097	21,137	234,888
Rent and leases	246,734	-	61,691	-	308,425
Miscellaneous	60,741	-	99,459	325	160,525
Total Revenues	19,289,674	1,141,935	684,491	1,833,414	22,949,514
Expenditures					
Current:					
General government	2,345,636	-	197,591	-	2,543,227
Judicial	731,637	-	-	-	731,637
Public safety	9,029,263	-	-	-	9,029,263
Physical environment	885,062	-	-	-	885,062
Economic environment	692,147	-	-	2,124	694,271
Culture and recreation	3,388,457	-	-	23,934	3,412,391
Transportation	-	392,803	-	661,460	1,054,263
Debt Service:					
Principal retirement	-	-	-	385,000	385,000
Interest and fiscal charges	-	-	-	40,603	40,603
Bond issuance costs	-	-	112,435	-	112,435
Capital Outlay	-	746,156	717,249	-	1,463,405
Total Expenditures	17,072,202	1,138,959	1,027,275	1,113,121	20,351,557
(Deficiency) of Revenues (Under) Expenditures	2,217,472	2,976	(342,784)	720,293	2,597,957
Other Financing Sources (Uses)					
Proceeds from issuance of GO debt	-	-	11,210,000	-	11,210,000
Premiums received - GO debt	-	-	1,006,554	-	1,006,554
Transfers in	-	400,000	615,519	784,356	1,799,875
Transfers out	(1,352,575)	(30,300)	-	(417,000)	(1,799,875)
Total Other Financing Sources (Uses)	(1,352,575)	369,700	12,832,073	367,356	12,216,554
Net Change in Fund Balances	864,897	372,676	12,489,289	1,087,649	14,814,511
Fund Balances Beginning of Year	2,884,670	636,336	1,249,327	1,363,255	6,133,588
Prior Period Adjustment			-		-
Fund Balances End of Year	\$ 3,749,567	\$ 1,009,012	\$ 13,738,616	\$ 2,450,904	\$ 20,948,099

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net Changes In Fund Balances - Total Governmental Funds	\$ 14,814,511
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**Amounts reported for governmental activities in the
statement of activities are different because:**

Governmental funds report capital outlays as expenditures on the governmental fund type operating statement. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capitalized capital outlay exceeded depreciation expense in the current period.

Depreciation expense	\$ (1,801,879)	
Capital outlay	1,463,405	
Capital Contributions	29,191	
Less amount of capital outlay not capitalized	(309,283)	(309,283)

The book value of capital assets sold are reported on the government-wide statement of activities but not reported in the governmental fund's operating statement.

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Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes Deferred @ 12/31/18	\$ 158,423	
Property Taxes Deferred @ 12/31/17	(117,841)	40,582

Governmental funds do not report the change in the investment in the joint venture, but the change is reported on the government-wide statement of activity.

384,762

Elimination of transfers between governmental funds:

Transfers in	\$ (1,799,875)	
Transfers out	1,799,875	-

The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.

(121,005)

The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.

58,617

The issuance of long-term debt is reported as an other financing source at the fund financial reporting level but reclassified as a liability at the government-wide financial reporting level.

(12,216,554)

Accrued interest and premium amortization is not reported in the governmental funds, but is reported on the government-wide financial statements.

Interest Expense	(228,631)	
Bond Premium	17,060	

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net position.

385,000

Other postemployment expenses are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

602,897

Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet

978,373

Compensated absences are reported in the government-wide statement of activities, but do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Liability @ 12/31/18	\$ (842,208)	
Liability @ 12/31/17	748,649	(93,559)

Change In Net Position of Governmental Activities	\$ 4,312,770
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See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Net Position
Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 560,406	\$ 83,488	\$ 19,607	\$ 663,501	\$ 209,716
Investments	2,409,915	598,609	296,134	3,304,658	901,843
Receivables:					
Accounts	523,807	408,162	240,234	1,172,203	-
Intergovernmental	-	13,201	34,704	47,905	7,384
Total Current Assets	3,494,128	1,103,460	590,679	5,188,266	1,118,943
Noncurrent Assets:					
Restricted assets: cash and cash equivalents	76,404	585,062	596,384	1,257,850	-
Restricted assets: investments	-	490,380	1,224,301	1,714,681	-
Capital assets:					
Nondepreciable	690,065	1,131,968	848,901	2,670,934	200,989
Depreciable, net	5,496,196	19,307,759	10,231,300	35,035,255	1,485,677
Total Noncurrent Assets	6,262,665	21,515,169	12,900,886	40,678,720	1,686,666
Deferred Outflow of Resources					
Related to Pensions	29,528	15,012	52,514	97,054	7,477
Total Deferred Outflow of Resources	29,528	15,012	52,514	97,054	7,477
Liabilities					
Current Liabilities:					
Accounts Payable	597,449	262,330	15,627	875,406	26,492
Wages and benefits payable	15,910	20,641	24,238	60,789	6,544
Compensated absences payable	8,574	14,043	8,711	31,328	2,601
Intergovernmental payable	5,410	24,389	2,557	32,356	-
Public works trust fund loan payable	-	98,984	-	98,984	-
Revenue bonds payable	49,647	375,327	396,685	821,659	-
Total Current Liabilities	676,990	795,714	447,818	1,920,522	35,637
Long-Term Liabilities: (net of current portion)					
Public works trust fund loan payable	-	280,349	-	280,349	-
Revenue bonds payable	689,581	6,366,447	6,413,564	13,469,592	-
Compensated absences payable	34,294	56,169	34,846	125,309	10,405
Net pension liability	152,778	72,334	178,256	403,368	37,197
Total Long-term Liabilities	876,653	6,775,299	6,626,666	14,278,618	47,602
Deferred Inflow of Resources					
Related to Pensions	54,354	77,711	48,971	181,036	26,803
Total Deferred Inflow of Resources	54,354	77,711	48,971	181,036	26,803
Net Position					
Net investment in capital assets	5,447,033	13,809,000	5,494,253	24,750,286	1,686,666
Restricted for debt service	76,404	824,649	808,200	1,709,253	-
Unrestricted	2,654,887	351,268	118,171	3,124,325	1,016,378
Total Net Position	\$ 8,178,324	\$ 14,984,916	\$ 6,420,624	29,583,864	\$ 2,703,044
Reconciliation of the fund level statement of net position to the government-wide statement of net position:					
Record internal service fund charge-back to enterprise funds resulting in an interfund receivable to governmental activities.				(446,992)	
Adjusted Total Net Position				\$ 29,136,872	

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Operating Revenues					
Charges for services	\$ 3,647,039	\$ 3,174,693	\$ 1,852,929	\$ 8,674,661	\$ 682,814
Operating Expenses					
Operations and maintenance	3,536,687	3,123,548	1,737,335	8,397,570	469,106
Depreciation	563,426	680,834	348,318	1,592,578	340,589
Total Operating Expenses	4,100,113	3,804,382	2,085,653	9,990,148	809,695
Operating Income (Loss)	(453,074)	(629,689)	(232,724)	(1,315,487)	(126,881)
Non-Operating Revenues (Expenses)					
Intergovernmental	-	-	70,848	70,848	-
Interest and fiscal charges	(28,042)	(222,829)	(211,588)	(462,459)	-
Gain on disposition of capital assets	-	-	-	-	5,876
Investment earnings	50,506	54,562	61,165	166,233	-
Miscellaneous revenue	-	-	-	-	-
Total Non-Operating Revenues (Expenses)	22,464	(168,267)	(79,575)	(225,378)	5,876
Income (Loss) Before Contributions	(430,610)	(797,956)	(312,299)	(1,540,865)	(121,005)
Contributions	380,005	413,174	15,460	808,639	-
Change in Net Position	(50,605)	(384,782)	(296,839)	(732,226)	(121,005)
Net Position Beginning of Year	8,228,929	15,369,698	6,717,463	30,316,090	2,824,049
Net Position End of Year	<u>\$ 8,178,324</u>	<u>\$ 14,984,916</u>	<u>\$ 6,420,624</u>	<u>\$ 29,583,864</u>	<u>\$ 2,703,044</u>
Reconciliation of the fund level operating statement to the government-wide statement of activities:					
Change in net position	\$ (50,605)	\$ (384,782)	\$ (296,839)	\$ (732,226)	
Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	(13,284)	(17,568)	(27,765)	(58,617)	
Adjusted Change in Net Position	<u>\$ (63,889)</u>	<u>\$ (402,350)</u>	<u>\$ (324,604)</u>	<u>\$ (790,843)</u>	

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Increase (Decrease) in Cash and Cash Equivalents					
Cash Flows from Operating Activities					
Cash received from customers	\$ 3,668,447	\$ 3,151,475	\$ 1,863,473	\$ 8,683,395	\$ 5,088
Cash received from interfund services provided	-	-	-	-	677,850
Cash payments to employees for services	(420,599)	(633,934)	(637,142)	(1,691,675)	(192,823)
Cash payments for goods and services	(2,715,265)	(2,428,677)	(1,142,568)	(6,286,510)	(279,297)
Net Cash Provided by (Used in) Operating Activities	532,583	88,864	83,763	705,210	210,818
Cash Flows from Capital and Related Financing Activities					
Proceeds from disposition of capital assets	-	-	-	-	5,876
Proceeds from capital contributions	295,800	248,720	15,460	559,980	-
Proceeds from capital grants	-	-	70,848	70,848	-
Principal paid on revenue bonds	(45,834)	(334,571)	(354,595)	(735,000)	-
Interest paid on revenue bonds	(30,138)	(247,191)	(238,495)	(515,824)	-
Bond issue costs paid on revenue bonds	(51)	(407)	(443)	(901)	-
Principal paid on public works trust fund loan	-	(98,984)	-	(98,984)	-
Interest paid on public trust fund loan	-	(2,392)	-	(2,392)	-
Payments for capital acquisitions	(3,829)	(76,682)	(456)	(80,967)	(107,493)
Net Cash Provided by (Used in) Capital and Related Financing Activities	215,948	(511,507)	(507,681)	(803,240)	(101,617)
Cash Flows from Investing Activities					
Purchase of investment securities	(2,412,498)	(359,407)	(84,408)	(2,856,313)	(904,696)
Proceeds from sale and maturities of investment securities	1,908,662	726,444	423,576	3,058,683	882,781
Investment earnings	50,506	54,562	61,165	166,233	-
Net Cash Provided by (Used in) Investing Activities	(453,330)	421,599	400,333	368,603	(21,915)
Net Increase (Decrease) in Cash and Cash Equivalents	295,201	(1,043)	(23,585)	270,573	87,286
Cash and Cash Equivalents Beginning of Year	341,609	669,593	639,576	1,650,778	122,430
Cash and Cash Equivalents End of Year	\$ 636,810	\$ 668,550	\$ 615,991	\$ 1,921,351	\$ 209,716

(Continued)

City of Mountlake Terrace
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

(Continued)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating Income (Loss)	\$ (453,074)	\$ (629,689)	\$ (232,724)	\$ (1,315,487)	\$ (126,881)
Adjustments:					
Depreciation	563,426	680,834	348,318	1,592,578	340,589
(Increase) Decrease in Assets:					
Accounts receivable	21,408	(23,218)	24,849	23,039	-
Intergovernmental receivable	-	-	(14,304)	(14,304)	124
Increase (Decrease) in Liabilities:					
Accounts payable	450,499	95,096	(25,162)	520,433	-
Intergovernmental payable	(2,483)	(3,195)	(322)	(6,000)	13,539
Compensated absences payable	(47,193)	(30,964)	(16,891)	(95,048)	(16,553)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 532,583</u>	<u>\$ 88,864</u>	<u>\$ 83,764</u>	<u>\$ 705,211</u>	<u>\$ 210,818</u>
Schedule of Non-Cash Capital and Related Financing Activities					
Capital assets contributed by private developers	\$ 84,205	\$ 164,454	\$ -	\$ 248,659	\$ -
Increase (decrease) in fair value of investments	3,597	4,336	5,939	13,872	-
Total Non-Cash Activities	<u>\$ 87,802</u>	<u>\$ 168,790</u>	<u>\$ 5,939</u>	<u>\$ 262,531</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2018

	Pension Trust	Agency
Assets		
Cash and cash equivalents	\$ 1,033	\$ 818,484
Due from other governments		\$ 1,292
Investments	-	-
Total Assets	<u>1,033</u>	<u>\$ 819,776</u>
Liabilities		
Deposits payable	-	822,303
Checks payable		(12,512)
Intergovernmental payable	-	9,985
Total Liabilities	<u>-</u>	<u>\$ 819,776</u>
Net Position		
Held in trust for pension benefits	<u>\$ 1,033</u>	

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Firemen's Pension Trust Fund
For the Year Ended December 31, 2018

	<u>2018</u>
Net Position Beginning of Year	<u>\$ 1,033</u>
Net Position End of Year	<u><u>\$ 1,033</u></u>

See accompanying notes to the basic financial statements

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

Note 1 – Summary of Significant Accounting Policies

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

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

1-A. Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this entity includes no component units.

1-B. Basis of Presentation

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

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

1-C. Measurement Focus, Basis of Accounting

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

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

New Accounting Standards – with this report the City has implemented GASB Statement No. 75 – Accounting and Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 replaces the requirements of Statement No. 45 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.

Note 1 – Summary of Significant Accounting Policies (Continued)

1-D. Budgetary Information

Scope of Budget

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

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

Appropriations for all funds lapse at year-end.

Amending the Budget

The City Manager or Finance Director may approve budget transfers between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by a simple majority. The budget was amended by ordinance twice during 2018. The budget amounts shown in the financial statements and schedules are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final is the original budget adjusted by all reserves, transfer, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

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

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

1-E-2 Receivables

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

1-E-3 Interfund Balances

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

1-E-4 Inventories

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

1-E-5 Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. The City reports these assets in the governmental activities column

of the government-wide statement of net position but does not report these assets in the Government fund financial statements. Capital assets utilized by enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the enterprise funds' statement of net position.

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (Continued)

1-E-6 Compensated Absences

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

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

Earned compensatory time is accrued at December 31, 2018. All compensated absence liabilities include salary-related payments, where applicable.

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

1-E-7 Pensions

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

1-E-8 Accrued Liabilities and Long-term Obligations

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

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

1-E-9 Bond Premiums, Discounts and Issuance Costs

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

1-E-10 Fund Balance Classification

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

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

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

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

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

- Committed
- Assigned
- Unassigned

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

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

Net Position – The net position represents the difference between total assets and deferred outflow of resources and total liabilities and deferred inflow of resources. The net position component, “net investment in capital assets, consists of capital assets, net of accumulated depreciation, and construction or improvement of those assets. The net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The balance of the net position is reported as unrestricted.

Note 1 - Summary of Significant Accounting Policies (Continued)

1-E-11 Operating Revenues and Expenses

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

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

1-E-12 Interfund Activity

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

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

1-E-13 Estimates

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

Note 2 – Stewardship, Compliance and Accountability

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

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

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

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

Note 3 - Detailed Notes on All Funds

3A. Deposits and Investments

Deposits

Cash on hand at December 31, 2018 was \$5,988,679.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the city would not be able to recover collateral securities that are in the possession of an outside party. The City's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Deposit Protection Commission (PDPC).

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

At December 31, 2018, the City held the following investments:

Investment Type	Weighted Average Maturity - Years	City's own investments	Investments held by city as an agent for others	Total
Federal Farm Credit Bank	0.6	\$ 6,462,716	\$ -	\$ 6,462,716
United States Dept of Treasury	0.8	5,939,451		\$ 5,939,451
Resolution Funding Corp	2.8	1,056,652		\$ 1,056,652
FICO Strip	0.4	1,050,786		\$ 1,050,786
Federal Home Loan Bank	1.5	3,949,820		\$ 3,949,820
Federal Home Loan Mortgage Corporation	3.4	2,978,432		\$ 2,978,432
Federal National Mortgage Association	0.8	999,033		\$ 999,033
Total		<u>\$ 22,436,890</u>	<u>\$ -</u>	<u>\$ 22,436,890</u>

Credit Quality Risk –Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of debt securities as of December 31, 2018 are:

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

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

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

The investments in the Federal Farm Credit Bank, Federal Home Loan Bank, and Federal National Mortgage Association (Fannie Mae), government-sponsored enterprises, which are not explicitly backed by the federal government, are 51% of the City's total investment portfolio market value, respectively.

Note 3 - Detailed Notes on All Funds (Continued)

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

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

At December 31, 2018, the city had the following investments measured at fair value:

Investment Type	Fair Value	Quotes Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Federal Agency Securities	\$ 21,380,238	\$ 5,939,451	\$ 15,440,787
Government Sponsored Enterprise	1,056,652		1,056,652
Total Investments	\$ 22,436,890	\$ 5,939,451	\$ 16,497,439

3B. Receivables

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

3C. Property Taxes

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

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

Note 3 - Detailed Notes on All Funds (Continued)

3-D. Capital Assets

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

	Beginning			Ending
Governmental Activities:	Balance			Balance
(including Internal Service fund):	1/1/2018	Increases	Decreases	12/31/2018
Nondepreciable capital assets:				
Land	\$ 1,855,003	\$ -	\$ -	\$ 1,855,003
Construction in Progress	2,916,164	1,377,301	52,371	4,241,094
Total nondepreciable capital assets	4,771,167	1,377,301	52,371	6,096,097
Depreciable capital assets				
Buildings	13,341,967	-	-	13,341,967
Improvements other than buildings	1,545,086	-	-	1,545,086
Machinery & equipment	6,060,086	151,517	50,841	6,160,762
Infrastructure	34,533,921	123,636		34,657,557
Total depreciable capital assets	55,481,060	275,153	50,841	55,705,372
Total capital assets	60,252,227	1,652,454	103,212	61,801,469
Less accumulated depreciation for:				
Buildings	9,055,697	299,914		9,355,611
Improvements other than buildings	1,279,764	36,283	-	1,316,047
Machinery & Equipment	4,246,827	346,426	50,841	4,542,412
Infrastructure	18,763,277	1,459,845		20,223,122
Total accumulated depreciation	33,345,565	2,142,468	50,841	35,437,192
Governmental activities capital assets, net	\$ 26,906,662	\$ (490,014)	\$ 52,371	\$ 26,364,277

Note 3 - Detailed Notes on All Funds (Continued)

	Beginning			Ending
	Balance			Balance
Business-Type Activities:	1/1/2018	Increases	Decreases	12/31/2018
Nondepreciable capital assets:				
Land	\$ 2,128,469	\$ -	\$ -	\$ 2,128,469
Construction in Progress	516,260	33,790	7,584	542,465
Total nondepreciable capital assets	2,644,729	33,790	7,584	2,670,934
Depreciable capital assets:				
Buildings	2,744,174	-	-	2,744,174
Improvements other than buildings	21,168	-	-	21,168
Machinery & equipment	586,088	-	-	586,088
Infrastructure	53,164,229	303,422	-	53,467,651
Intangibles	1,827,239	-	-	1,827,239
Total depreciable capital assets	58,342,898	303,422	-	58,646,320
Total capital assets	60,987,627	337,211	7,584	61,317,254
Less accumulated depreciation for:				
Buildings	1,167,802	85,579		1,253,381
Improvements other than buildings	20,478	250		20,728
Machinery & equipment	496,902	25,853		522,755
Infrastructure	18,871,513	1,115,447		19,986,960
Intangibles	1,461,792	365,448		1,827,240
Total accumulated depreciation	22,018,487	1,592,578	-	23,611,065
Business-type activities capital assets, net	\$ 38,969,139	\$ (1,255,366)	\$ 7,584	\$ 37,706,190

Depreciation Expense by Function

GOVERNMENTAL ACTIVITIES

General Government	\$41,519
Public Safety	181,386
Physical Environment	226,709
Transportation	1,466,508
Economic Environment	15,172
Culture & Recreation	211,174
Total Depreciation Expense - Governmental Activities	<u>2,142,468</u>

BUSINESS-TYPE ACTIVITIES

Sewer	563,426
Water	680,834
Storm Water	348,318
Total Depreciation Expense - Business-Type Activities	<u>1,592,578</u>

Note 3 - Detailed Notes on All Funds (Continued)

3-E. - Interfund Transfers

Interfund transfers for the year ended December 31, 2018, consisted of the following:

Transfers to	Transfers from:			Total
	General Fund	Street Const	Nonmajor Governmental Funds	
Street Construction Fund	\$ 100,000		\$ 300,000	\$ 400,000
Capital Improvements Fund	615,519		-	615,519
Nonmajor Governmental Funds	637,056	30,300		667,356
Total	\$ 1,352,575	\$ 30,300	\$ 300,000	\$ 1,682,875

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

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

3-F. Long-Term Debt

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

Governmental Activities General Obligation Bonds

June 12, 2018, the City issued \$11,210,000 of general obligation bonds with a premium of \$1,006,554 at a coupon rate ranging from 3.00% to 5.00%. The bonds mature December 1, 2047. The purpose of this debt issue is for the Civic Campus Project.

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

Bond Issue	Purpose	Range	Rate	Amount
2018 Gen'l Obligation Bonds	Civic Campus Project	2018 - 2047	3.00%-5.00%	\$ 11,210,000
2013A Refunding Bonds	Refinance 1993A & 2001 Bonds	2013 - 2022	2.08%	1,490,000
2013B Gen'l Obligation Bonds	Refinance BAN Short Term Debt	2014 - 2020	3.70%	1,680,000

Note 3 - Detailed Notes on All Funds (Continued)

Annual debt service requirements to amortize general obligations bonds outstanding, as of December 31, 2018 follow:

Year	Principal	Interest	Total
2019	365,000	744,210	1,109,210
2020	595,000	503,775	1,098,775
2021	340,000	485,001	825,001
2022	345,000	475,813	820,813
2023	245,000	466,475	711,475
2024-2028	1,370,000	2,181,750	3,551,750
2029-2033	1,660,000	1,888,600	3,548,600
2034-2038	2,055,000	1,489,000	3,544,000
2039-2043	2,625,000	920,250	3,545,250
2044-2047	2,570,000	262,000	2,832,000
Total	\$ 12,170,000	\$ 9,416,874	\$ 21,586,874

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

The final debt service payment of \$30,000 plus \$300 in interest was paid in 2018.

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

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

Annual debt service requirements to amortize the public works trust fund loan outstanding, as of December 31, 2018 follow:

Year	Principal	Interest	Total
2019	98,984	1,897	100,881
2020	98,984	1,402	100,386
2021	98,984	907	99,891
2022	82,381	411	82,792
Total	\$ 379,333	\$ 4,617	\$ 383,950

Note 3 - Detailed Notes on All Funds (Continued)

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

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

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2018 follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	285,000	169,825	454,825
2020	300,000	158,425	458,425
2021	310,000	146,425	456,425
2022	320,000	134,800	454,800
2023	335,000	122,800	457,800
2024-2028	1,875,000	403,000	2,278,000
2029-2030	860,000	52,000	912,000
Total	<u>\$4,285,000</u>	<u>\$1,187,275</u>	<u>\$5,472,275</u>

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

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2018 follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	230,000	116,700	346,700
2020	235,000	109,800	344,800
2021	240,000	102,750	342,750
2022	250,000	95,550	345,550
2023	255,000	88,050	343,050
2024-2028	1,400,000	320,400	1,720,400
2029-2032	1,280,000	97,500	1,377,500
Total	<u>\$3,890,000</u>	<u>\$ 930,750</u>	<u>\$4,820,750</u>

Note 3 - Detailed Notes on All Funds (Continued)

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

Annual debt service requirements to amortize the revenue bonds outstanding, as of December 31, 2018 follow:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	250,000	204,500	454,500
2020	255,000	197,000	452,000
2021	265,000	189,350	454,350
2022	270,000	181,400	451,400
2023	285,000	170,600	455,600
2024-2028	1,595,000	673,400	2,268,400
2029-2033	1,950,000	327,000	2,277,000
2034	435,000	17,400	452,400
Total	<u>\$5,305,000</u>	<u>\$1,960,650</u>	<u>\$7,265,650</u>

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

The recorded accruals for compensated absences are as follows:

Vacation	671,040
Sick Leave	323,069
Compensatory Time	17,742
Total	\$ 1,011,851

Note 3 - Detailed Notes on All Funds (Continued)

Changes in Long-term Debt - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2018 (includes internal service fund):

	Outstanding 1/1/2018	Additions	Reductions	Outstanding 12/31/2018	Amounts Due in One Year
Governmental Activities					
General obligation bonds	\$ 535,000	\$ 11,210,000	\$ 105,000	\$ 11,640,000	\$ 105,000
Unamortized bond premium		\$ 1,006,554	\$ 17,060	\$ 989,494	\$ 34,120
Limited liability GO bond	\$ 780,000	-	250,000	\$ 530,000	260,000
Public works board loan	30,000	-	30,000	\$ -	-
Pension Liabilities	3,259,656	-	874,263	\$ 2,385,393	-
Compensated absences	760,432	94,782	-	\$ 855,214	171,043
OPEB	10,751,652	-	385,310	10,366,342	-
Total Governmental Activities	\$ 16,116,740	12,311,336	\$ 1,661,633	\$ 26,766,443	\$ 570,163
Business-Type Activities					
Public works trust fund loan	\$ 478,317	\$ -	\$ 98,984	\$ 379,333	\$ 98,984
Utility revenue bonds	14,215,000	-	735,000	13,480,000	765,000
Unamortized bond premium	867,907	-	56,658	811,249	56,658
Pension Liabilities	608,743	-	205,375	403,368	-
Compensated absences	131,073	25,564	-	156,637	31,327
Total Business-Type Activities	\$ 16,301,040	\$ 25,564	\$ 1,096,017	\$ 15,230,587	\$ 951,969

The general obligation bonds and the local loan are being retired by the debt service fund. The compensated absences liability and net OPEB obligation will be paid from the fund from which the employees' salaries are paid. The public works board loan was being retired from the transportation benefit district fund until it was transferred to the debt service fund effective December 31, 2016. The public works trust fund loan is being retired from the water utility fund. The 2010 water and sewer revenue bonds are being retired by water utility fund (41.666%), sewer utility fund (16.666%) and the storm water utility fund (41.666%). The 2012 revenue bonds are being retired by the water utility fund (31.37%), and the storm water utility fund (68.63%). The 2014 revenue bonds will be retired by the water utility fund (62.9%) and the storm water utility fund (37.1%).

3-G. Operating Lease

The City has an operating lease for use of City Hall which expires in October of 2020. Minimum lease payments are \$521,781 in 2019 and \$536,917 in 2020.

3-H. Pensions

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

Note 3 - Detailed Notes on All Funds (Continued)

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,788,761
Pension assets	\$ 2,507,107
Deferred outflows of resources	\$ 734,221
Deferred inflows of resources	\$ 1,924,339
Pension expense/expenditures	\$ 151,995

State Sponsored Pension Plans

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

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

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

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

Plan Description

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

Note 3 - Detailed Notes on All Funds (Continued)

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%
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%

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

The city's actual contributions to the plan were \$301,749 for the year ended December 31, 2018.

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.

Note 3 - Detailed Notes on All Funds (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 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%
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%

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

The city's actual contributions to the plan were \$432,014 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.

Note 3 - Detailed Notes on All Funds (Continued)

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 includes 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%

The city's actual contributions to the plan were \$153,052 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 \$93,668.

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.

Note 3 - Detailed Notes on All Funds (Continued)

- 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 employers, whose rates include a component for the PERS 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 (asset) calculated using the discount rate of 7.4 percent, as well as what the city's proportionate share of the net pension liability (asset) 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 (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$2,339,244	\$1,903,468	\$1,525,999
PERS 2/3	4,049,349	885,293	(1,708,881)
LEOFF 1	(647,089)	(813,418)	(956,616)
LEOFF 2	(225,229)	(1,693,689)	(2,891,389)

Note 3 - Detailed Notes on All Funds (Continued)

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 \$2,788,761 and a total pension asset of \$2,507,107 for its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	\$ 1,903,468
PERS 2/3	885,293
LEOFF 1	(813,418)
LEOFF 2	(1,693,689)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for the State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	(\$813,418)	(\$1,693,689)
State's proportionate share of the net pension asset associated with the employer	(5,501,936)	(1,096,632)
TOTAL	(\$6,315,353)	(\$2,790,321)

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	0.042948%	0.042621%	(0.000327)%
PERS 2/3	0.052683%	0.051850%	(0.000833)%
LEOFF 1	0.046138%	0.044804%	(0.001334)%
LEOFF 2	0.080177%	0.083424%	0.003247%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 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 12.88 percent of the employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 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 the update procedures use to roll forward the total pension liability to the measurement date.

Note 3 - Detailed Notes on All Funds (Continued)**Pension Expense**

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

	Pension Expense
PERS 1	\$ 150,169
PERS 2/3	(132,819)
LEOFF 1	(112,413)
LEOFF 2	(56,932)
TOTAL	\$ (151,995)

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:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 75,643
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 155,343	\$ 0
TOTAL	\$ 155,343	\$ 75,643

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 108,514	\$ 154,998
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 543,257
Changes of assumptions	\$ 10,356	\$ 251,947
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 213,086
Contributions subsequent to the measurement date	\$ 224,162	\$ 0
TOTAL	\$ 343,032	\$ 1,163,288

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 66,038
Changes of assumptions	\$ 0	\$ 0
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 0	\$ 0
Contributions subsequent to the measurement date	\$ 0	\$ 0
TOTAL	\$ 0	\$ 66,038

Note 3 - Detailed Notes on All Funds (Continued)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 90,728	\$ 39,328
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 296,418
Changes of assumptions	\$ 959	\$ 243,075
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 66,619	\$ 40,547
Contributions subsequent to the measurement date	\$ 77,541	\$ 0
TOTAL	\$ 235,846	\$ 619,368

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	\$ 3,309	\$ (179,671)	\$ 63	\$ (31,886)
2020	(16,536)	(215,020)	(14,987)	(76,766)
2021	(49,620)	(355,596)	(40,575)	(168,671)
2022	(12,796)	(146,208)	(10,628)	(63,613)
2023	-	(68,650)	-	(21,593)
Thereafter	-	(79,273)	-	(98,531)

Municipal Employees Benefit Trust

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

The City and the participants are required to contribute an amount equal to that, which would have been required under the Federal Insurance Contribution Act (less the amount contributed for Medicare insurance.) For 2018, the City's contribution rate was 4.96% and the participant's contribution rates were 6.2% of gross salary. Contributions by temporary employees are 7.5% of salary as required by law for employees not covered by any other retirement program.

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

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

The City's covered payroll for the year ended December 31, 2018 was \$9,484,723.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2018 were:

	Contribution Rate	Amount
Employer	4.96%	\$433,939
Employee	6.2% or 7.5%	594,832

Note 3 - Detailed Notes on All Funds (Continued)

The market value of assets available for plan benefits as of December 31, 2018 is \$23,185,286. Assets of the plan are not the property of the City and are not included in the accompanying financial statements.

3-I. Other Postemployment Benefits

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	\$ 10,366,342
Deferred outflows of resources	\$ 217,586

Plan Description - As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 21 LEOFF 1 retirees. The City provides medical insurance and reimbursements for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer, other pension plan, or any other similar source are covered. Medical insurance for the retirees is provided by the City's employee medical insurance program. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions.

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

41.26.150 - Sickness or disability benefits — Medical services.

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

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

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

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

Note 3 - Detailed Notes on All Funds (Continued)

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

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

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

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

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

- (a) Hospital expenses: These are the charges made by a hospital, in its own behalf, for
 - (i) Board and room not to exceed semiprivate room rate unless private room is required by the attending physician due to the condition of the patient.
 - (ii) Necessary hospital services, other than board and room, furnished by the hospital.
 - (iii) Other medical expenses: The following charges are considered "other medical expenses", provided that they have not been considered as "hospital expenses".
 - a. The fees of the following:
 - i. A physician or surgeon licensed under the provisions of chapter 18.71 RCW;
 - ii. An osteopathic physician and surgeon licensed under the provisions of chapter 18.57 RCW;
 - iii. A chiropractor licensed under the provisions of chapter 18.25 RCW.
 - b. The charges of a registered graduate nurse other than a nurse who ordinarily resides in the member's home, or is a member of the family of either the member or the member's spouse.
 - c. The charges for the following medical services and supplies:
 - i. Drugs and medicines upon a physician's prescription;
 - ii. Diagnostic X-ray and laboratory examinations;
 - iii. X-ray, radium, and radioactive isotopes therapy;
 - iv. Anesthesia and oxygen;
 - v. Rental of iron lung and other durable medical and surgical equipment;
 - vi. Artificial limbs and eyes, and casts, splints, and trusses;
 - vii. Professional ambulance service when used to transport the member to or from a hospital when injured by an accident or stricken by a disease;

Note 3 - Detailed Notes on All Funds (Continued)

- viii. Dental charges incurred by a member who sustains an accidental injury to his or her teeth and who commences treatment by a legally licensed dentist within ninety days after the accident;
- ix. Nursing home confinement or hospital extended care facility;
- x. Physical therapy by a registered physical therapist;
- xi. Blood transfusions, including the cost of blood and blood plasma not replaced by voluntary donors;
- xii. An optometrist licensed under the provisions of chapter 18.53 RCW

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

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

These amounts are adjusted for inflation on an annual basis.

Plan Description (Medicare Premiums) - The City also pays the Medicare premium for qualifying LEOFF I retirees as outlined in RCW 41. The cost of this premium (approximately \$105 per month in 2016) is offset by a lower insurance premium.

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

Assumptions and Other Inputs

Assumptions	
Discount Rate¹	
Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%
Healthcare Trend Rates²	
Medical Costs	Initial rate is approximately 12% / 7% for Excise Tax / No Excise Tax, trends down to about 5% in 2080.
Long-Term Care	4.50%
Medicare Part B Premiums	Approximately 5%, varies by year.
Mortality Rates (assume 100% male population)*	
Base Mortality Table	RP-2000 Mortality Table
	+1 year Healthy / -2 years Disabled
Age Setback	Blended 50%/50% Healthy/Disabled
Mortality Improvements	100% Scale BB
Projection Period	Generational
Medicare Participation Rate	100%

¹ Source: Bond Buyer General Obligation 20-Bond Municipal Index.

² For additional detail on the healthcare trend rates, please see OSA's 2016 LEOFF 1 Medical Benefits Actuarial Valuation Report.

Note 3 - Detailed Notes on All Funds (Continued)

Sensitivity Analysis

Sensitivity Analysis			
Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	\$11,723,393	\$10,366,342	\$9,232,022
Healthcare Trend	\$9,272,623	\$10,366,342	\$11,644,536

Changes in the Total OPEB Liability

Schedule of Changes in Total Other Liability and Related Ratios	
Measurement Date of June 30, 2018	
Total OPEB Liability (TOL)	
Service Cost*	\$0
Interest Cost	\$377,780
Changes in Experience Data and Assumptions	(\$361,296)
Changes in Benefit Terms	\$0
Estimated Benefit Payments	(\$401,794)
Other	\$0
Net Change in Total OPEB Liability	(\$385,310)
Total OPEB Liability - Beginning	\$10,751,652
Total OPEB Liability - Ending	\$10,366,342
Covered Employee Payroll	\$0
TOL as a Percentage of Covered Payroll	N/A

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

The City used the alternative measurement method to calculate the unfunded Accrued Actuarial Liability (AAL). The estimates of the values reported and assumptions about the probability of the future are actuarially determined amounts and are subject to continual revision and are compared to past expectations and new estimates are about future and actuarial calculations reflect a long term perspective. Retirement, disablement, termination and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2016 actuarial valuation report issued by the Office of the State Actuary (OSA).

Deferred outflows of resources of \$217,586 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2019.

3-J. Net Position

Fund Balances – Fund balances are classified as follows:

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

General Fund:

Inventories	<u>\$ 26,009</u>
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Note 3 - Detailed Notes on All Funds (Continued)

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

Street Construction Fund:

Street construction	\$ 761,474
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Capital Improvements Fund:

Park improvements	\$ 1,155,006
Cable improvements	195,928
Capital projects	12,122,078

<i>Total Capital Improvements Fund:</i>	\$ 13,473,012
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Nonmajor Governmental Funds:

Tourism promotion	29,990
Capital outlay	1,627,030

<i>Total Nonmajor Governmental Funds:</i>	\$ 1,657,020
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- ***Committed*** – The following fund balances are committed to specific purposes:

Nonmajor Governmental Funds:

Rental housing inspections	273,684
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- ***Assigned*** – The following fund balances are assigned to specific purposes:

General Fund:

Working Capital	\$ 765,717
Catastrophic fluctuations	718,966
Accrued leave	55,145
Service charge relief	\$ 103,971

<i>Total General Fund:</i>	\$ 1,643,799
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Street Construction Fund:

Street Construction Fund	247,538
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Capital Improvement Fund:

Capital Improvement Fund	265,604
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Nonmajor Governmental Funds:

City Streets	\$ 499,161
Debt service	21,039

\$ 520,200

Note 3 - Detailed Notes on All Funds (Continued)

Net Investment in Capital Assets – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2018 are as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets:		
Total capital assets	\$ 61,801,470	\$ 61,317,257
Less accumulated depreciation	<u>(35,437,191)</u>	<u>(23,611,070)</u>
Net capital assets	26,364,279	37,706,187
Less capital related debt	(12,170,000)	(13,859,333)
Add unspent bond proceeds	12,122,078	1,714,681
Less unamortized bond premium	(1,006,554)	(811,249)
Net investment in capital assets	<u><u>\$ 25,309,803</u></u>	<u><u>\$ 24,750,286</u></u>

3-K. Tax Abatements

In 2018, tax abatements granted by the city related to multi-family property tax exemption program result in a tax abatement of \$38,145.

Note 4 - Other Notes

4-A. Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible up 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.

Note 4 - Other Notes (Continued)

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.

The amount of settlements has not exceeded the city's insurance coverage for each of the past three fiscal years.

4-B. Contingent Liabilities

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

The City was a defendant in several lawsuits at December 31, 2018. In the opinion of City management, the outcome of these contingencies will not have a material effect on the financial position of the City.

4-C. Health and Welfare

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

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

As of December 31, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

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

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Note 4 - Other Notes (Continued)

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

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

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

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

4-D. Joint Ventures

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

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

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

At December 31, 2018, the City owned an equity interest in the SERS joint venture of \$203,304. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2018. The County financed its capital contribution to SERS via the issuance of bonded debt. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the County and SERS as recorded in the County's financial system. The County, who acts as the entity's fiscal agent under the Administrative Services Agreement signed on January 19, 2000, prepares the unaudited financial information. Separate financial statements for the Snohomish County Emergency Radio System can be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201

Note 4 - Other Notes (Continued)

Snohomish County 911 – The City 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 government 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 \$753,538 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.

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

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

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different than what was reported in previous years.

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

Year	Budget	Amount	Percentage
2013	\$ 89,850	\$ 1,188	1.32%
2014	92,543	1,224	1.32%
2015	123,464	1,529	1.24%
2016	145,590	1,202	0.83%
2017	97,934	1,808	1.85%
2018	102,586	2,001	1.95%

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 4 - Other Notes (Continued)

4-E. Encumbrance Commitments

As of December 31, 2018, the City has encumbered amounts that they intend to honor in the subsequent fiscal year for the following major governmental funds and nonmajor in the aggregate:

Major Governmental Funds:

General Fund	\$ 1,741,296
Street Construction Fund	195,314
Capital Improvements Fund	<u>823,137</u>
<i>Total Major Governmental Funds</i>	<i>\$ 2,759,747</i>

4-F. Prior Period Adjustment

A prior period adjustment is reported on the Statement of Net Position due to a change in accounting principle related to implementation of GASB 75. The prior period adjustment reduces beginning net position (governmental) by \$6,140,993.

4-G. Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The City of Mountlake Terrace has implemented a control budget to reduce non-essential expenditures. This will remain in effect until the full extent of the impacts on the city's finances is better known.

The length of time these measures will be in place, and the full extent of the financial impact on the city is unknown at this time.

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

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 12,620,947	\$ 13,020,947	\$ 13,245,141	\$ 224,194
Licenses and permits	1,098,825	1,348,825	\$ 1,443,959	95,134
Intergovernmental	583,046	583,046	\$ 649,025	65,979
Charges for services	3,032,571	3,482,571	\$ 3,417,974	(64,597)
Fines and forfeitures	424,360	224,360	\$ 161,194	(63,166)
Rents and leases	276,962	276,962	\$ 246,734	(30,228)
Investment earnings	24,522	24,522	\$ 64,906	40,384
Miscellaneous	20,500	91,000	\$ 60,741	(30,259)
Total Revenues	<u>18,081,733</u>	<u>19,052,233</u>	<u>19,289,674</u>	<u>237,441</u>
Expenditures				
Current:				
General government	1,941,913	2,532,098	2,345,636	186,462
Judicial	899,572	899,572	731,637	167,935
Public safety	9,209,191	9,309,191	9,029,263	279,928
Physical environment	633,663	633,663	885,062	(251,399)
Community development	460,669	720,669	692,147	28,522
Culture and recreation	3,623,851	3,623,851	3,388,457	235,394
Total Expenditures	<u>16,768,859</u>	<u>17,719,044</u>	<u>17,072,202</u>	<u>646,842</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,312,874</u>	<u>1,333,189</u>	<u>2,217,472</u>	<u>884,283</u>
Other Financing (Uses)				
Transfers out	<u>(937,056)</u>	<u>(1,352,575)</u>	<u>(1,352,575)</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ 375,818</u>	<u>\$ (19,386)</u>	<u>864,897</u>	<u>\$ 884,283</u>
Fund Balances Beginning of Year			<u>2,884,670</u>	
Fund Balances End of Year			<u>\$ 3,749,567</u>	

See accompanying notes to the required supplementary information

City of Mountlake Terrace
Street Construction Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ -	\$ 330,000	\$ 333,353	\$ 3,353
Intergovernmental	1,083,844	8,443,684	338,394	(8,105,290)
Charges for services	238,243	238,243	463,440	225,197
Investment earnings	16,884	16,884	6,748	(10,136)
Miscellaneous	-	-	-	-
Total Revenues	<u>1,338,971</u>	<u>9,028,811</u>	<u>1,141,935</u>	<u>(7,886,876)</u>
Expenditures				
Current				
Transportation	2,458,728	9,818,568	392,803	9,425,765
Capital Outlay	-	-	746,156	(746,156)
Total Expenditures	<u>2,458,728</u>	<u>9,818,568</u>	<u>1,138,959</u>	<u>8,679,609</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,119,757)</u>	<u>(789,757)</u>	<u>2,976</u>	<u>792,733</u>
Other Financing Sources				
Proceeds from General Obligation Debt	1,000,000	1,000,000	-	(1,000,000)
Transfers in	685,000	400,000	400,000	-
Transfers out	-	(30,300)	(30,300)	-
Other Financing Sources	<u>1,685,000</u>	<u>1,369,700</u>	<u>369,700</u>	<u>(1,000,000)</u>
Net Change in Fund Balances	<u>\$ 565,243</u>	<u>\$ 579,943</u>	<u>372,676</u>	<u>\$ (207,267)</u>
Fund Balances Beginning of Year			<u>636,336</u>	
Fund Balances End of Year			<u>\$ 1,009,012</u>	

See accompanying notes to the required supplementary information

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - Plan 1
As of June 30, 2018
Last 4 Fiscal Years

		2015	2016	2017	2018
Employer's proportion of the net pension liability (asset)	%	0.0486950%	0.0459570%	0.0429480%	0.0426210%
Employer's proportionate share of the net pension liability	\$	2,547,201	2,468,107	2,037,916	1,903,468
Employer's covered payroll	\$	5,442,397	5,387,654	5,275,027	5,526,007
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	46.80%	45.81%	38.63%	34.45%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.22%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - Plan 1
For the year ended December 31, 2018
Last 4 Fiscal Years

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Statutorily or contractually required contributions</u>	\$	307,048	337,731	267,691	301,749
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	<u>(307,048)</u>	<u>(337,731)</u>	<u>(267,691)</u>	<u>(301,749)</u>
<u>Contribution deficiency (excess)</u>	\$	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Covered payroll</u>	\$	5,384,386	5,339,507	5,307,552	5,845,117
<u>Contributions as a percentage of covered payroll</u>	%	5.70%	6.33%	5.04%	5.16%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
 Schedule of Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System - Plan 2/3
 As of June 30, 2018
 Last 4 Fiscal Years

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	%	0.0615440%	0.0560520%	0.0526830%	0.0518500%
Employer's proportionate share of the net pension liability	\$	2,199,002	2,822,174	1,830,482	885,293
Employer's covered payroll	\$	5,442,397	5,387,654	5,165,933	5,416,251
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	40.41%	52.38%	35.43%	16.35%
Plan fiduciary net position as a percentage of the total pension liability	%	89.20%	85.82%	90.97%	95.77%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - Plan 2/3
For the year ended December 31, 2018
Last 4 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Statutorily or contractually required contributions</u>	\$ 307,048	337,731	356,726	432,014
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (307,048)	(337,731)	(356,726)	(432,014)
<u>Contribution deficiency (excess)</u>	\$ 0	0	0	0
<u>Covered payroll</u>	\$ 5,384,386	5,339,507	5,197,007	5,761,918
<u>Contributions as a percentage of covered payroll</u>	% 5.70%	6.33%	6.86%	7.50%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - LEOFF 1
As of June 30, 2018
Last 4 Fiscal Years

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	%	0.0451300%	0.0456180%	0.0461380%	0.0448040%
Employer's proportionate share of the net pension liability	\$	-543,916	-469,996	-700,015	-813,418
Employer's covered payroll	\$	0	0	0	0
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	%	127.36%	123.74%	135.96%	144.42%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - LEOFF 2
As of June 30, 2018
Last 4 Fiscal Years

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Employer's proportion of the net pension liability (asset)	%	0.0910980%	0.0875740%	0.0801770%	0.0834240%
Employer's proportionate share of the net pension asset	\$	-936,305	-509,357	-1,112,597	-1,693,689
State's proportionate share of the net pension liability (asset) associated with the employer	\$	-409,091	-405,618	-721,721	-1,096,632
TOTAL	\$	-1,345,396	-914,975	-1,834,318	-2,790,321
Employer's covered payroll	\$	2,675,611	2,637,757	2,502,316	2,761,003
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	34.99%	19.31%	44.46%	61.34%
Plan fiduciary net position as a percentage of the total pension liability	%	111.67%	106.04%	111.36%	118.50%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - LEOFF 2
For the year ended December 31, 2018
Last 4 Fiscal Years

		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Statutorily or contractually required contributions</u>	\$	136,795	128,727	133,651	153,052
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	<u>(136,795)</u>	<u>(128,727)</u>	<u>(133,651)</u>	<u>(153,052)</u>
<u>Contribution deficiency (excess)</u>	\$	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Covered payroll</u>	\$	2,708,819	2,549,059	2,593,181	2,907,625
<u>Contributions as a percentage of covered payroll</u>	%	5.05%	5.05%	5.15%	5.26%

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

REQUIRED SUPPLEMENTARY INFORMATION - OPEB

City of Mountlake Terrace, Washington
Schedule of Changes in Total OPEB Liability and Related Ratios
LEOFF
For the year ended June 30, 2018

	<u>2018</u>
Total OPEB liability - beginning	10,751,652
Service cost	-
Interest	377,780
Changes in benefit terms	-
Changes in experience data and assumptions	(361,296)
Benefit payments	(401,794)
Other changes	-
Total OPEB liability - ending	<u><u>10,366,342</u></u>
Covered-employee payroll	-
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.

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.

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