



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Mountlake Terrace

For the period January 1, 2021 through December 31, 2021

Published October 14, 2024

Report No. 1035732



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

October 14, 2024

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mountlake Terrace January 1, 2021 through December 31, 2021

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

Audit Period: January 1, 2020 to December 31, 2020	Report Ref. No.: 1032391	Finding Ref. No.: 2020-001
Finding Caption: The City's internal controls over financial statement preparation were inadequate for ensuring accurate and complete financial reporting.		
Background: During 2020, the City implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities. The guidance clarified what constituted a fiduciary activity for financial reporting purposes, as well as the fund types to be reported. The City's process for preparing the 2020 financial statements did not adequately ensure they were complete and accurate. The City analyzed the potential effects of implementing GASB 84, but did not include the Municipal Employees Benefit Trust (MEBT) pension plan in its analysis. MEBT was included in Note 3-H, Pension Plans, before the implementation of GASB 84, and the City had historically viewed it as a separate entity. However, MEBT meets the criteria of a fiduciary activity under GASB 84 and, as such, must be reported as a fiduciary fund. MEBT was excluded from fiduciary statements on the original annual report draft provided to our Office.		
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: <i>We are now including the MEBT program in our financial statements. We are also reviewing new GASB's closely and looking at checklists, etc. from MRSC, SAO, and other websites to ensure we are not missing anything. We also have a consultant CPA that we have that keeps us updated on the new GASB implementations.</i>		

Audit Period: January 1, 2020 to December 31, 2020	Report Ref. No.: 1032391	Finding Ref. No.: 2020-002	Assistance Listing Number(s): 21.019
Federal Program Name and Granting Agency: U.S. Department of the Treasury		Pass-Through Agency Name: Washington State Department of Commerce	
Finding Caption: The City had inadequate internal controls for ensuring compliance with federal requirements for allowable activities and costs			
<p>Background: City's reimbursement request process was ineffective for ensuring it only requested reimbursement for actual expenditures incurred. The City charged salaries and wages for an employee in the police department that were reimbursed based on an estimate. The City did not reconcile the estimated charges to actual costs to ensure the costs charged to the program were for actual work that the employee performed. The City also requested reimbursement for payroll charged to public works department employees that did not match respective timesheets. Specifically, staff mistakenly applied a COVID-19-related time allocation correction in the payroll system for one employee to everyone in the entire department. This resulted in sick leave and family medical leave charges for employees in the department being recorded as COVID-19 time eligible even though no actual COVID-19 leave time was used. The City subsequently corrected the error in its payroll system, but it did not communicate this error to the pass-through agency. Additionally, the City paid its subrecipients with cash advances instead of paying them on a reimbursement basis. The Department of Commerce specifically prohibited cash advances</p>			
Status of Corrective Action: (check one) <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>We are reviewing grants documents more closely to ensure compliance with applicable federal requirements for all federal programs. Staff are attending grant trainings as they are offered.</i>			

INDEPENDENT AUDITOR'S REPORT

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, 2021 through December 31, 2021

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 2, 2024.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain other matters that we have reported to the management of the City in a separate letter dated October 2, 2024.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

October 2, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Mountlake Terrace January 1, 2021 through December 31, 2021

Council
City of Mountlake Terrace
Mountlake Terrace, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying 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, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 2, 2024 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 the effectiveness of the City's 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

October 2, 2024

FINANCIAL SECTION

City of Mountlake Terrace January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet--Governmental Funds – 2021

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2021

Statement of Net Position – Proprietary Funds – 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2021

Statement of Cash Flows – Proprietary Funds – 2021

Statement of Fiduciary Net Position – Fiduciary Funds – 2021

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2021

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Note to RSI

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2021

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF – 2021



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, 2021. 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 \$91,526,564 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$64,403,947 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 \$12,703,687 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$14,418,930 represents the portion available to maintain the City’s continuing obligations to citizens and creditors.
- The City’s governmental funds reported a total ending fund balance of \$21,058,575 this year. This compares to the prior year ending fund balance of \$16,721,252, showing an increase of \$4,337,323 or 25.9% during the current year. This increase is due to an operating surplus in the General Fund as well as decreased spending on capital projects in 2021.
- Overall, the City continues to maintain a strong financial position.

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

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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



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

The government-wide financial statements are presented on pages 11 and 12 of this report.

Fund Financial Statements

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

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

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

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

The basic governmental fund financial statements are presented on pages 14 - 17 of this report.

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

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

The basic enterprise fund financial statements are presented on pages 18 - 21 of this report.

- *Fiduciary fund* type represents funds held in trust and custodial funds. The statements for these funds are presented on pages 22 and 23.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 61 of this report.

Required Supplementary Information

This section includes the required supplementary information for the State Sponsored Plans. We present these schedules in the supplementary information section on pages 96 - 103.



Financial Analysis of the City as a Whole

The City's net position at calendar year-end was \$91,526,564. The following table provides a summary of the City's net position:

Summary of Net Position at December 31,						
	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current	\$ 28,847,464	\$ 21,946,286	\$ 15,175,626	\$ 11,396,509	\$ 44,023,090	\$ 33,342,795
Capital assets	50,506,299	47,054,804	37,055,311	37,002,538	87,561,610	84,057,342
Other	10,700,593	3,245,110	1,945,799	1,138,259	12,646,392	4,383,369
Total assets	90,054,356	72,246,200	54,176,736	49,537,306	144,231,092	121,783,506
Deferred outflows of resources	1,209,458	1,244,383	160,700	154,462	1,370,158	1,398,845
Liabilities:						
Current	6,728,938	3,672,526	3,063,145	2,964,609	9,792,083	6,637,135
Non-current	23,018,829	25,517,860	12,789,495	14,128,098	35,808,324	39,645,958
Total liabilities	29,747,767	29,190,386	15,852,640	17,092,707	45,600,407	46,283,093
Deferred inflows of resources	7,171,201	995,627	1,303,078	177,295	8,474,279	1,172,922
Net position:						
Net investment in capital assets	38,749,168	34,923,552	25,654,779	25,076,575	64,403,947	60,000,127
Restricted	11,708,808	8,437,737	994,879	799,425	12,703,687	9,237,162
Unrestricted	3,886,870	(56,719)	10,532,060	6,545,766	14,418,930	6,489,047
Net position	\$ 54,344,846	\$ 43,304,570	\$ 37,181,718	\$ 32,421,766	\$ 91,526,564	\$ 75,726,336

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 4.3 to 1 as compared to 6.0 to 1 at December 31, 2020. The current ratio for the business-type activities at December 31, 2021 is 5.0 to 1, as compared to 3.8 to 1 as of December 31, 2020. For the City overall, the current ratio is 4.5 to 1 as compared to 5.0 to 1 at December 31, 2020. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$11,188,991 for governmental activities and increased by \$4,759,952 for business-type activities. The City's overall financial position increased during calendar year 2021 by \$15,948,943.

71.3% of the governmental activities' net position is invested in capital assets. The City uses these capital assets to provide services to its citizens. 69.0% 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 these funds. Overall, 70.4% 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	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program:						
Charges for services	\$ 5,870,197	\$ 4,935,178	\$ 17,038,731	\$ 14,761,247	\$ 22,908,928	\$ 19,696,425
Operating grants and contributions	1,194,807	1,886,647	201,266	126,477	1,396,073	2,013,124
Capital grants and contributions	3,122,695	5,153,258	2,153,308	703,158	5,276,003	5,856,416
General:						
Taxes	18,846,271	16,354,480	-	-	18,846,271	16,354,480
Other	1,220,595	441,914	(4,323)	124,761	1,216,272	566,675
Total revenues	30,254,565	28,771,477	19,388,982	15,715,643	49,643,547	44,487,120
Program Expenses:						
General government	1,791,504	2,501,891	-	-	1,791,504	2,501,891
Judicial	695,576	603,144	-	-	695,576	603,144
Public Safety	8,457,948	8,854,572	-	-	8,457,948	8,854,572
Physical environment	1,460,711	1,043,175	-	-	1,460,711	1,043,175
Transportation	3,087,435	3,087,455	-	-	3,087,435	3,087,455
Economic environment	141,686	881,583	-	-	141,686	881,583
Culture and recreation	2,980,300	2,935,725	-	-	2,980,300	2,935,725
Interest	450,414	468,220	-	-	450,414	468,220
Sewer utility	-	-	6,798,148	6,022,844	6,798,148	6,022,844
Water utility	-	-	5,118,131	4,953,171	5,118,131	4,953,171
Storm water utility	-	-	2,712,751	2,467,140	2,712,751	2,467,140
Total expenses	19,065,574	20,375,765	14,629,030	13,443,155	33,694,604	33,818,920
Revenues over (under) expenses	11,188,991	8,395,712	4,759,952	2,272,488	15,948,943	10,668,200
Transfers	-	33,760	-	(33,760)	-	-
Changes in net position	11,188,991	8,429,472	4,759,952	2,238,728	15,948,943	10,668,200
Beginning net position	43,304,570	34,657,102	32,421,766	30,183,038	75,726,336	64,840,140
Prior period adjustments	(148,715)	217,996	-	-	(148,715)	217,996
Beginning net position - restated	43,155,855	34,875,098	32,421,766	30,183,038	75,577,621	65,058,136
Ending net position	\$ 54,344,846	\$ 43,304,570	\$ 37,181,718	\$ 32,421,766	\$ 91,526,564	\$ 75,726,336

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 2021 tax revenues were \$2,491,791 more than those reported in 2020. The most significant increases were in real estate excise taxes (REET), which increased by \$1,535,165 or 145.9% and sales taxes which increased \$519,342 or 12.9%. Excise taxes increased \$515,282 or 86.6% from 2020. 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. It is not uncommon to see REET revenues fluctuate from year-to-year because it is a tax on the sale of real property sales. REET revenues came in higher due to a sale of a large piece of property. Gambling tax makes up the majority of the city's excise tax revenues. The Governor's Stay Home – Stay Healthy proclamation mandated closures of these types of establishments in 2020. With the lifting of the mandate gambling tax went back to pre-pandemic levels.

In total, taxes make up 62.3% of the total revenues stream as compared to 56.8% in 2020. Property taxes make up 21.2% of revenues, as compared to 23.5% in 2020 and the sales taxes make up 15.1% of total revenues as compared to 14.0% in 2020,

Capital contributions revenue decreased \$2,030,563 or 39.4% due to a decrease in grant funding received for street construction projects.



Note that program revenues cover 53.4% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 46.6% 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, 44.4% of the total costs relates to public safety in 2021, compared to 43.5% in 2020. Culture and recreation expenses make up 15.6% as compared to 14.4% in 2020.

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	
	2021	2020	2021	2020
General government	\$ 1,791,504	\$ 2,501,891	\$ 792,791	\$ 326,744
Judicial	695,576	603,144	(580,618)	(501,125)
Public Safety	8,457,948	8,854,572	(7,392,228)	(7,941,576)
Physical environment	1,460,711	1,043,175	(1,460,711)	(1,043,175)
Transportation	3,087,435	3,087,455	(970,985)	2,335,176
Economic environment	141,686	881,583	822,003	186,213
Culture and recreation	2,980,300	2,935,725	362,287	(1,294,719)
Interest	450,414	468,220	(450,414)	(468,220)
Total	<u>\$ 19,065,574</u>	<u>\$ 20,375,765</u>	<u>\$ (8,877,875)</u>	<u>\$ (8,400,682)</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		%
	2021	2020	Change
Sewer Utility	\$ (1,062,009)	\$ (952,947)	11.44%
Water Utility	1,694,739	970,099	74.70%
Storm Water Utility	1,449,168	1,592,711	-9.01%
Total	<u>\$ 2,081,898</u>	<u>\$ 1,609,863</u>	<u>29.32%</u>



The following analysis is provided for the major enterprise funds.

Sewer Utility Fund – Revenues from charges for services increased \$999,752 or 19.7% in 2021 over 2020. This increase in revenue is in direct response to a rate increase that went into effect January 1, 2020 and increased the revenue each year until 2024.

Operation and maintenance costs increased \$1,105,902 or 19.0% above the 2020 amount due to an increase in debt service for a new bond and the Edmonds Wastewater Treatment Plant upgrades. At December 31, 2021, net position totals \$6,660,031. Of this amount, \$5,743,094 or 86.2% represents the net investment in capital assets.

Water Utility Fund – Revenues from charges for services increased \$999,522 or 17.3 %. This increase in revenue is in direct response to a rate increase that went into effect January 1, 2020 and increased the revenue each year until 2024.

Operations and maintenance costs increased \$283,676 or 6.9% above the 2020 amount. Depreciation expense decreased \$8,794 or 1.3% from 2020.

At December 31, 2021, the net position totaled \$19,693,994. Of this amount, \$13,896,645 or 70.6% represents the net investment in capital assets.

Storm Water Utility Fund - Charges for services increased \$278,210 or 7.1% over 2020. This increase in revenue is in direct response to a rate increase that went into effect January 1, 2020 and increased the revenue each year until 2024.

Operations and maintenance expenses increased \$414,750 or 20.8% from the 2020 amount. This was due to the pandemic. In 2020 expenditures were decreased due to the pandemic and 2021 was back to normal business hours. Depreciation expense increased \$7,003 or 2.0% from 2020.

At December 31, 2021, the net position total was \$10,277,668. Of this amount, \$6,015,040 or 58.5% 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 \$21,058,575 as compared to \$16,721,252 at December 31, 2020.

The restricted amount at December 31, 2021 was \$7,578,315, relating primarily to capital improvements.

Over \$5.7 million is assigned, primarily for street maintenance, capital improvements, working capital and for revenue fluctuations.

The total ending fund balances of governmental funds show an increase of approximately \$4.3 million compared to a decrease of \$7.1 million as of December 31, 2020. The significant increase is primarily due to completion of debt-funded capital projects which occurred in 2020.

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 \$2,088,804 or 28.7% in 2021. This increase relates primarily to significant increases in taxes (\$933,143), licenses and permits (\$507,886) and charges for services (\$364,311).



Total revenues increased \$1,078,676 or 5.2% in 2021, primarily as a result of better economic conditions as the economy recovers from COVID-19.

Total taxes increased \$983,143 or 6.6% from 2020.

Licenses and permits increased by \$507,886 or 29.5% from 2020 to 2021.

In total, intergovernmental revenue decreased \$785,015 or 54.8% from the 2020 amount. This decrease reflects a decrease in COVID-related assistance.

Total charges for services increased \$364,311 or 16.6%, primarily due to re-opening of recreation facilities.

Investment earnings decreased by \$94,546 or 93.5% due to less favorable market conditions.

Rents and leases increased by \$29,959 or 40.7% as a result of re-opening of facilities after COVID.

In 2021, total expenditures increased \$661,102 or 3.9% above the 2020 amount. This is due to moderate increases in ongoing operating expenditures.

Street Construction Fund – During 2021, this fund recognized \$1,278,683 in revenues, primarily intergovernmental revenue and traffic impact fees. Intergovernmental revenue decreased \$3,326,438 or 84.3% from 2020 due to a decrease in capital grants received in 2021. This fund expended \$394,530 for construction projects or \$3.0 million less than in 2020.

This fund reported ending fund balance is \$3,932,413 or an increase of \$1,054,243 above the December 31, 2020, amount.

Capital Improvements Fund – In 2021, this fund recognized \$2,330,233 from various revenue sources. This fund expended \$4,795,502 during 2021. At December 31, 2021, the City reported a fund balance of \$1,594,847 as compared to \$2,285,441 at December 31, 2020. The decrease is due to spending on major capital projects.

Real Estate Excise Tax Fund – In 2021, this fund received \$2,587,662 of real estate excise tax revenue, which represents an increase of \$1,535,165 or 146% over the 2020 amount. This significant increase is due an exceptionally strong real estate market.

Budgetary Highlights – General Fund

The General Fund's revenue budget was amended upward in calendar year 2021 by \$2,924,225 due to a decrease of tax revenues by \$519,063, building permits increase of \$510,415, criminal justice revenue of \$89,412, a reduction of miscellaneous revenue (Lease, City Assistance, etc.) by \$137,678, and an American Rescue Plan Act (ARPA) grant in the amount of \$2,918,140. The City did not expend the ARPA grant for 2021.

In total, revenues were under budget by \$644,645. Intergovernmental revenues account for substantially all the difference.

In total, the City realized 97% of estimated revenues.

The General Fund expenditure budget was amended upward by \$347,679 during 2021 due to several positions that were not budgeted, but needed, professional service agreements in Finance and Community and Economic Development departments, and the interim city hall lease. The positions were a Community Outreach Specialist, Accounting Supervisor, Associate Planner, and two custodians.

The total general fund budget was underspent by \$721,846 or 4.5%.

Capital Assets and Debt Administration

Capital Assets

The net book value of the City's capital assets increased by 4.2% from 2020 to 2021. Governmental assets increased by 7.3%, primarily due to an increase in construction in progress, and business-type assets increased by .1%. 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-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Nondepreciable assets:						
Land	\$ 3,621,904	\$ 3,621,904	\$ 2,128,469	\$ 2,128,469	\$ 5,750,373	\$ 5,750,373
Construction in progress	16,568,738	13,865,702	820,066	797,775	17,388,804	14,663,477
Total nondepreciable assets	20,190,642	17,487,606	2,948,535	2,926,244	23,139,177	20,413,850
Depreciable assets:						
Buildings	13,397,423	13,397,423	2,744,174	2,744,174	16,141,597	16,141,597
Improvements	3,690,294	1,545,084	21,168	21,168	3,711,462	1,566,252
Machinery and equipment	7,390,092	6,733,113	1,234,382	586,089	8,624,474	7,319,202
Infrastructure	48,624,064	47,859,870	55,572,278	54,958,085	104,196,342	102,817,955
Intangibles	-	-	1,827,240	1,827,240	1,827,240	1,827,240
Total depreciable assets	73,101,873	69,535,490	61,399,242	60,136,756	134,501,115	129,672,246
Total accumulated depreciation	42,786,216	39,968,292	27,292,466	26,060,463	70,078,682	66,028,755
Book value - depreciable assets	30,315,657	29,567,198	34,106,776	34,076,293	64,422,433	63,643,491
Percentage depreciated	59%	57%	44%	43%	52%	51%
Book value - all assets	\$ 50,506,299	\$ 47,054,804	\$ 37,055,311	\$ 37,002,537	\$ 87,561,610	\$ 84,057,341

At December 31, 2021, the depreciable capital assets for governmental activities were 59% depreciated compared to the December 31, 2020 percentage of 57%.

At December 31, 2021, the major projects included in the governmental activities construction in progress include:

- Civic Campus Design and Construction: \$13,707,522
- Ballinger Water Front Project: \$1,933,0877
- Evergreen Playfield Project: \$496,963
- 66th Avenue West Pavement Reconstruction: \$533,286

With the City's business-type activities, 44% of the asset values were depreciated at December 31, 2021, as compared to 43% at December 31, 2020.

At December 31, 2021, the major projects included in the business-type activities construction in progress include:

- Taylor Pond Reconfiguration and Upgrade: \$366,995
- Westside Water Main Project: \$279,479



Long-Term Debt

The following table reports outstanding long-term debt at both December 31, 2021 and 2020.

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ 11,757,131	\$ 12,131,252	\$ -	\$ -	\$ 11,757,131	\$ 12,131,252
Revenue bonds	-	-	13,584,651	14,583,430	13,584,651	14,583,430
Public works trust fund loan	-	-	82,383	181,366	82,383	181,366
Total	\$ 11,757,131	\$ 12,131,252	\$ 13,667,034	\$ 14,764,796	\$ 25,424,165	\$ 26,896,048

In a report issued on July 2, 2020 Standard & Poor's (S&P) lowered its "AA" Rating to a "AA-" Rating on the city's 2012 and 2014 series water and sewer revenue bonds that Council authorized on December 1, 2014. The only ratings higher are "AAA", "AA+" and an "AA", which few municipalities have achieved. S&P's 'AA' long-term rating on the City's previously issued series 2012 and 2010 water and sewer bonds was not included in the downgrade.

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.
- Moderate system rates, which management expects will rise as it annually increases water, sewer, and stormwater rates to cover rising costs.
- Adequate operational management assessment.

The 'AA-' Bond Rating, even though it is a downgrade, is still an extraordinary achievement for our City. 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

2021 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 pandemic, the City Council was diligent about ensuring that Mountlake Terrace maintains its financial health. It continues to be a focus of the Council as we continue to monitor the financial impacts of the pandemic and the City's ability 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 seems to be withstanding the impacts of the pandemic, we must continue providing general government services with the revenue that is available today, rather than overspending with the assumption that the economy will 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.

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 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 2021 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, and again in 2019 with the adoption of Town Center Subarea Plan, the City Council has focused on economic development in the city's core 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 continued level of development activity in Mountlake Terrace reflects very positively upon our community. The City Council's planning and policies enacted over the last 15-years are bearing fruit in terms of numerous development projects completed or underway in and adjacent to Town Center. Over 1,100 housing units and more than 121,000 square feet of commercial space is planned or has been permitted or recently constructed or is in the process of being completed in this neighborhood. Throughout the City, the value of new construction in 2021 increased by a little over \$25 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 Acting City Manager, Stephen Clifton, at (425) 744-6209.

City of Mountlake Terrace
Statement of Net Position
December 31, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents (Note 3-A)	\$ 17,330,456	\$ 6,892,072	\$ 24,222,528
Investments (Note 3-A)	9,088,567	3,839,328	12,927,895
Receivables:			
Accounts	161,837	3,795,298	3,957,135
Taxes	2,079,053	-	2,079,053
Intergovernmental	705,442	98,903	804,345
Internal balances	(550,025)	550,025	-
Inventory and prepaids	32,134	-	32,134
Total Current Assets	28,847,464	15,175,626	44,023,090
Noncurrent Assets			
Investment in joint venture	730,684	-	730,684
Restricted assets: cash and cash equivalents	-	799,425	799,425
Net pension asset	9,969,909	1,146,374	11,116,283
Capital assets (Note 3-D)			
Nondepreciable	20,190,642	2,948,536	23,139,178
Depreciable, net	30,315,657	34,106,775	64,422,432
Total Noncurrent Assets	61,206,892	39,001,110	100,208,002
Total Assets	90,054,356	54,176,736	144,231,092
Deferred Outflow of Resources			
Related to pensions	994,455	160,700	1,155,155
Related to OPEB	215,003	-	215,003
Total Deferred Outflow of Resources	1,209,458	160,700	1,370,158
Liabilities			
Current Liabilities			
Accounts payable	1,156,214	1,804,505	2,960,719
Wages payable	289,431	62,103	351,534
Intergovernmental payable	93,376	66,997	160,373
Unearned revenue	2,981,140	-	2,981,140
Deposits payable	1,151,353	-	1,151,353
Compensated absences payable	208,645	28,379	237,024
Accrued interest payable	39,651	-	39,651
Public trust fund loan payable	-	82,383	82,383
Total other postemployment benefits liability	430,007	-	430,007
General obligation bonds payable	379,121	-	379,121
Revenue bonds payable	-	1,018,778	1,018,778
Total Current Liabilities	6,728,938	3,063,145	9,792,083

City of Mountlake Terrace
Statement of Net Position
December 31, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Long-Term Liabilities (net of current portion):			
Compensated absences payable	834,579	113,514	948,093
Net pension liability	399,550	110,108	509,658
Other postemployment benefits liability	10,406,690	-	10,406,690
General obligation bonds payable	11,378,010	-	11,378,010
Revenue bonds payable	-	12,565,873	12,565,873
Total Long-term Liabilities	23,018,829	12,789,495	35,808,324
Total Liabilities	29,747,767	15,852,640	45,600,407
Deferred Inflow of Resources			
Related to bond refunding	-	98,498	98,498
Related to pensions	7,171,201	1,204,580	8,375,781
Total Deferred Inflow of Resources	7,171,201	1,303,078	8,474,279
Net Position			
Net investment in capital assets (Note 3-J)	38,749,168	25,654,779	64,403,947
Restricted for:			
Capital projects	7,492,844	-	7,492,844
Debt service	-	799,425	799,425
Tourism	85,471	-	85,471
Pensions	4,130,493	195,454	4,325,947
Unrestricted	3,886,870	10,532,060	14,418,930
Total Net Position	\$ 54,344,846	\$ 37,181,718	\$ 91,526,564

See accompanying notes to the basic financial statements

Function/Program	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants, Contributions and Interest		Capital Grants and Contributions	Primary Government	
		Charges for Services and Sales			Governmental Activities	Business-Type Activities
Primary Government						
Governmental Activities						
General government	1,791,504	\$ 2,463,666	\$ 120,629	\$ -	\$ 792,791	\$ 792,791
Judicial	695,576	114,958	-	-	(580,618)	(580,618)
Public safety	8,457,948	467,127	598,593	-	(7,392,228)	(7,392,228)
Physical environment	1,460,711	-	-	-	(1,460,711)	(1,460,711)
Transportation	3,087,435	416,018	445,580	1,254,852	(970,985)	(970,985)
Economic environment	141,686	963,689	-	-	822,003	822,003
Culture and recreation	2,980,300	1,444,739	30,005	1,867,843	362,287	362,287
Interest	450,414	-	-	-	(450,414)	(450,414)
Total Governmental Activities	19,065,574	5,870,197	1,194,807	3,122,695	(8,877,875)	(8,877,875)
Business-Type Activities:						
Sewer Utility	6,798,148	6,069,140	-	599,935	-	(129,073)
Water Utility	5,118,131	6,763,502	-	695,584	-	2,340,955
Storm Water Utility	2,712,751	4,206,089	201,266	857,789	-	2,552,393
Total Business-Type Activities	14,629,030	17,038,731	201,266	2,153,308	4,764,275	4,764,275
Total - Primary Government	\$ 33,694,604	\$ 22,908,928	\$ 1,396,073	\$ 5,276,003	(8,877,875)	(4,113,600)
General Revenues						
Property taxes					6,414,892	6,414,892
Sales taxes					4,560,094	4,560,094
Utility taxes					3,769,924	3,769,924
Excise taxes					1,110,447	1,110,447
Real estate excise taxes					2,587,662	2,587,662
Other taxes					403,252	403,252
Gain on disposition of capital assets					1,052,482	1,052,482
Investment earnings					(2,172)	(6,495)
Miscellaneous					170,285	170,285
Total General Revenues					20,066,866	20,062,543
Change in Net Position					11,188,991	15,948,943
Net Position Beginning of Year					43,304,570	75,726,336
Prior Period Adjustment					(148,715)	(148,715)
Net Position Beginning of Year (Restated)					43,155,855	75,577,621
Net Position End of Year					\$ 54,344,846	\$ 91,526,564

City of Mountlake Terrace
Balance Sheet
Governmental Funds
December 31, 2021

	General	Street Construction	Capital Improvements	Real Estate Excise Tax	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 8,442,001	\$ 2,522,392	\$ 918,846	\$ 2,999,909	\$ 771,652	\$ 15,654,800
Investments	4,155,829	1,398,242	507,231	1,669,284	429,720	8,160,306
Receivables:						
Accounts	149,134	-	2,811	-	9,892	161,837
Taxes	1,679,311	51,838	-	289,852	58,052	2,079,053
Intergovernmental	210,182	156,044	311,662	-	8,148	686,036
Inventory and prepaids	32,134	-	-	-	-	32,134
Total Assets	\$ 14,668,591	\$ 4,128,516	\$ 1,740,550	\$ 4,959,045	\$ 1,277,464	\$ 26,774,166
Liabilities						
Accounts payable	\$ 721,804	\$ 188,863	\$ 141,451	\$ -	\$ 51,640	\$ 1,103,758
Wages payable	262,934	7,240	2,596	-	10,765	283,535
Intergovernmental payable	91,720	-	1,656	-	-	93,376
Unearned revenue	2,981,140	-	-	-	-	2,981,140
Deposits payable	1,151,353	-	-	-	-	1,151,353
Total Liabilities	5,208,951	196,103	145,703	-	62,405	5,613,162
Deferred Inflow of Resources						
- Property Taxes	102,429	-	-	-	-	102,429
Fund Balances						
Nonspendable	32,134	-	-	-	-	32,134
Restricted	-	978,218	1,555,581	4,959,045	85,471	7,578,315
Committed	-	-	-	-	274,214	274,214
Assigned	1,907,772	2,954,195	39,266	-	855,374	5,756,607
Unassigned	7,417,305	-	-	-	-	7,417,305
Total Fund Balances	9,357,211	3,932,413	1,594,847	4,959,045	1,215,059	21,058,575
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 14,668,591	\$ 4,128,516	\$ 1,740,550	\$ 4,959,045	\$ 1,277,464	\$ 26,774,166

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, 2021

Total Governmental Fund Balances		\$ 21,058,575
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	\$ 87,624,151	
Less accumulated depreciation	<u>(39,041,198)</u>	48,582,953
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.		730,684
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds - property taxes.		102,429
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.		(5,851,373)
The net pension assets are not available to retire current year expenditures, therefore they are not reported on the governmental fund balance sheet.		9,848,702
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.		4,469,043
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		(550,025)
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.		
General obligation bonds payable	(11,757,131)	
Other postemployment benefits payable	(10,836,697)	
Accrued interest payable	(39,651)	
Net pension liability	(387,908)	
Compensated absences payable	<u>(1,024,755)</u>	(24,046,142)
Net Position Of Governmental Activities		<u><u>\$ 54,344,846</u></u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2021

	General	Street Construction	Capital Improvements	Real Estate Excise Tax	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 15,924,027	\$ 338,639	\$ -	\$ 2,587,662	\$ 33,973	\$ 18,884,301
Intergovernmental	648,046	617,606	1,726,530	-	318,634	3,310,816
Licenses and permits	2,228,149	-	-	-	-	2,228,149
Charges for services	2,562,860	319,014	356,655	-	97,005	3,335,534
Fines and forfeitures	114,958	-	-	(1,950)	-	113,008
Investment earnings	6,539	3,424	(12,995)	-	14,883	11,851
Rent and leases	103,538	-	88,017	-	-	191,555
Miscellaneous	171,657	-	142,026	-	-	313,683
Total Revenues	21,759,774	1,278,683	2,300,233	2,585,712	464,495	28,388,897
Expenditures						
Current:						
General government	2,210,844	-	-	-	-	2,210,844
Judicial	695,528	-	-	-	-	695,528
Public safety	9,535,145	-	-	-	-	9,535,145
Physical environment	1,466,947	-	-	-	-	1,466,947
Economic environment	673,577	-	-	-	2,234	675,811
Culture and recreation	3,178,504	-	-	-	-	3,178,504
Transportation	-	472,080	-	-	796,682	1,268,762
Capital Outlay	-	394,530	4,795,202	-	-	5,189,732
Debt Service:						
Principal retirement	-	-	-	-	340,000	340,000
Interest and fiscal charges	-	-	-	-	485,001	485,001
Bond issuance costs	-	-	300	-	-	300
Total Expenditures	17,760,545	866,610	4,795,502	-	1,623,917	25,046,574
(Deficiency) of Revenues (Under) Expenditures	3,999,229	412,073	(2,495,269)	2,585,712	(1,159,422)	3,342,323
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	-	-	995,000	-	-	995,000
Transfers in	-	642,170	809,675	-	1,425,425	2,877,270
Transfers out	(1,910,425)	-	-	(966,845)	-	(2,877,270)
Total Other Financing Sources (Uses)	(1,910,425)	642,170	1,804,675	(966,845)	1,425,425	995,000
Net Change in Fund Balances	2,088,804	1,054,243	(690,594)	1,618,867	266,003	4,337,323
Fund Balances Beginning of Year	7,268,407	2,878,170	2,285,441	3,340,178	949,056	16,721,252
Fund Balances End of Year	\$ 9,357,211	\$ 3,932,413	\$ 1,594,847	\$ 4,959,045	\$ 1,215,059	\$ 21,058,575

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, 2021

Net Changes In Fund Balances - Total Governmental Funds		\$ 4,337,323
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	\$ (2,496,334)	
Capital outlay	5,189,731	
Capital Contributions	764,194	
Capital outlay not capitalized	<u>(160,183)</u>	3,297,408
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 @ 12/31/21	\$ 102,429	
Property Taxes Deferred @ 12/31/20	<u>(140,459)</u>	(38,030)
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.		
		(96,972)
Elimination of transfers between governmental funds:		
Transfers in	\$ (2,877,270)	
Transfers out	<u>2,877,270</u>	-
The internal service fund is used by management to charge the costs of maintenance services to individual funds are not reported in the government-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		
		992,980
The internal service fund chargeback to enterprise funds is not reported in the governmental funds, but is reported on the government-wide financial statements.		
		(665,517)
Amortization of bond premiums are reported as a reduction to interest expense in the government-wide statement of activities, but do not reduce current expenditures and are therefore not reported in governmental funds.		
		34,121
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.		
		340,000
A one-month portion of interest on long-term debt is accrued in the governmental-activities but not on the governmental funds statement of revenues, expenditures and changes in fund balance		
		766
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.		
		73,122
Net pension debits reported on the government-wide statement of position but not reported on the governmental fund balance sheet		
		2,924,133
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 @ 12/31/21	\$ (1,024,755)	
Liability @ 12/31/20	<u>1,014,412</u>	(10,343)
Change In Net Position of Governmental Activities		<u><u>\$ 11,188,991</u></u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Net Position
Proprietary Funds
December 31, 2021

	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	\$ 2,207,635	\$ 2,790,868	\$ 1,893,569	\$ 6,892,072	\$ 1,675,656
Investments	1,227,941	1,564,331	1,047,056	3,839,328	928,261
Receivables:					
Accounts	1,361,300	1,438,602	995,396	3,795,298	-
Intergovernmental	1,215	-	97,688	98,903	19,406
Total Current Assets	4,798,091	5,793,801	4,033,709	14,625,601	2,623,323
Noncurrent Assets:					
Restricted assets: cash and cash equivalents	-	394,052	405,373	799,425	-
Net pension asset	366,566	427,209	352,599	1,146,374	121,207
Capital assets:					
Nondepreciable	586,961	1,201,754	1,159,821	2,948,536	200,989
Depreciable, net	5,667,565	18,178,639	10,260,571	34,106,775	1,722,357
Total Noncurrent Assets	6,621,092	20,201,654	12,178,364	39,001,110	2,044,553
Deferred Outflow of Resources					
Related to Pensions	51,385	59,887	49,428	160,700	16,991
Total Deferred Outflow of Resources	51,385	59,887	49,428	160,700	16,991
Liabilities					
Current Liabilities:					
Accounts Payable	1,441,943	268,970	93,592	1,804,505	52,456
Wages and benefits payable	15,336	24,152	22,615	62,103	5,896
Compensated absences payable	8,392	10,059	9,928	28,379	3,694
Intergovernmental payable	14,481	44,250	8,266	66,997	-
Public works trust fund loan payable	-	82,383	-	82,383	-
Revenue bonds payable	200,835	397,148	420,795	1,018,778	-
Total Current Liabilities	1,680,987	826,962	555,196	3,063,145	62,046
Long-Term Liabilities: (net of current portion)					
Revenue bonds payable	2,659,178	4,963,184	4,943,511	12,565,873	-
Compensated absences payable	33,567	40,236	39,711	113,514	14,775
Net pension liability	35,208	41,033	33,867	110,108	11,642
Total Long-term Liabilities	2,727,953	5,044,453	5,017,089	12,789,495	26,417
Deferred Inflow of Resources					
Related to bond refunding	16,419	41,033	41,046	98,498	-
Related to Pensions	385,178	448,900	370,502	1,204,580	127,361
Total Deferred Inflow of Resources	401,597	489,933	411,548	1,303,078	127,361
Net Position					
Net investment in capital assets	5,743,094	13,896,645	6,015,040	25,654,779	1,923,346
Restricted for pensions	62,499	72,838	60,117	195,454	20,665
Restricted for debt service	-	394,052	405,373	799,425	-
Unrestricted	854,438	5,330,459	3,797,138	9,982,035	2,525,032
Total Net Position	\$ 6,660,031	\$ 19,693,994	\$ 10,277,668	36,631,693	\$ 4,469,043
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.				550,025	
Adjusted Total Net Position				\$ 37,181,718	

See accompanying notes to the basic financial statements

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City of Mountlake Terrace
Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Utility	Water Utility	Storm Water Utility	Total	
Operating Revenues					
Charges for services	\$ 6,069,140	\$ 6,763,502	\$ 4,206,089	\$ 17,038,731	\$ 1,906,564
Operating Expenses					
Operations and maintenance	6,927,427	4,390,146	2,407,257	13,724,830	576,627
Depreciation	203,722	678,617	349,664	1,232,003	382,366
Total Operating Expenses	7,131,149	5,068,763	2,756,921	14,956,833	958,993
Operating Income (Loss)	(1,062,009)	1,694,739	1,449,168	2,081,898	947,571
Non-Operating Revenues (Expenses)					
Intergovernmental	-	-	201,266	201,266	-
Interest and bond issuance costs	(53,454)	(147,952)	(136,308)	(337,714)	-
Gain (loss) on disposition of capital assets	-	-	-	-	57,482
Investment earnings	(13,195)	2,390	6,482	(4,323)	(12,073)
Total Non-Operating Revenues (Expenses)	(66,649)	(145,562)	71,440	(140,771)	45,409
Income (Loss) Before Contributions	(1,128,658)	1,549,177	1,520,608	1,941,127	992,980
Contributions	599,935	695,584	857,789	2,153,308	-
Change in Net Position	(528,723)	2,244,761	2,378,397	4,094,435	992,980
Net Position Beginning of Year	7,188,754	17,449,233	7,899,271	32,537,258	3,476,063
Net Position End of Year	\$ 6,660,031	\$ 19,693,994	\$ 10,277,668	\$ 36,631,693	\$ 4,469,043
Reconciliation of the fund level operating statement to the government-wide statement of activities:					
Change in net position	\$ (528,723)	\$ 2,244,761	\$ 2,378,397	\$ 4,094,435	
Internal service fund charges (credits) to enterprise funds, resulting in changes to operating expenses.	386,455	98,584	180,478	665,517	
Adjusted Change in Net Position	\$ (142,268)	\$ 2,343,345	\$ 2,558,875	\$ 4,759,952	

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	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	\$ 5,590,087	\$ 6,259,410	\$ 3,899,270	\$ 15,748,767	\$ 1,429
Cash received from interfund services provided	-	-	-	-	1,888,194
Cash payments to employees for services	(597,470)	(974,278)	(710,622)	(2,282,370)	(227,543)
Cash payments for goods and services	(6,424,130)	(3,413,716)	(1,762,790)	(11,600,636)	(369,238)
Net Cash Provided by (Used in) Operating Activities	(1,431,513)	1,871,416	1,425,858	1,865,761	1,292,842
Cash Flows from Noncapital Financing Activities					
Proceeds from federal, state and local grants	-	-	201,266	201,266	-
Net Cash Provided by (Used in) Noncapital Financing Activities	-	-	201,266	201,266	-
Cash Flows from Capital and Related Financing Activities					
Proceeds from disposition of capital assets	-	-	-	-	57,482
Proceeds from capital contributions	497,760	550,333	491,022	1,539,115	-
Principal paid on revenue bonds	(187,479)	(373,248)	(394,273)	(955,000)	-
Interest paid on revenue bonds	(55,301)	(173,120)	(162,522)	(390,943)	-
Bond issue costs paid on revenue bonds	-	(282)	(318)	(600)	-
Principal paid on public works trust fund loan	-	(98,984)	-	(98,984)	-
Interest paid on public trust fund loan	-	(907)	-	(907)	-
Payments for capital acquisitions	(117,277)	(45,950)	(507,356)	(670,583)	(685,167)
Net Cash Provided by (Used in) Capital and Related Financing Activities	137,703	(142,158)	(573,447)	(577,902)	(627,685)
Cash Flows from Investing Activities					
Purchase of investment securities	-	(292,750)	(678,163)	(970,913)	-
Proceeds from sale and maturities of investment securities	1,060,310	-	338,834	1,399,144	23,988
Investment earnings	20,910	21,342	17,030	59,282	2,120
Net Cash Provided by (Used in) Investing Activities	1,081,220	(271,408)	(322,299)	487,513	26,108
Net Increase (Decrease) in Cash and Cash Equivalents	(212,590)	1,457,850	731,378	1,976,638	691,265
Cash and Cash Equivalents Beginning of Year	2,420,225	1,727,070	1,567,564	5,714,858	984,391
Cash and Cash Equivalents End of Year	\$ 2,207,635	\$ 3,184,920	\$ 2,298,942	\$ 7,691,496	\$ 1,675,656

(Continued)

City of Mountlake Terrace
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

(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)	\$ (1,062,009)	\$ 1,694,739	\$ 1,449,168	\$ 2,081,898	\$ 947,571
Adjustments:					
Depreciation	203,722	678,617	349,664	1,232,003	382,366
(Increase) Decrease in Assets:					
Accounts receivable	(479,053)	(504,092)	(223,322)	(1,206,467)	-
Intergovernmental receivable	-	-	(83,497)	(83,497)	(16,941)
Increase (Decrease) in Liabilities:					
Accounts payable	8,256	82,066	23,377	113,699	-
Intergovernmental payable	286	2,982	1,264	4,532	22,933
Compensated absences payable	(102,715)	(82,896)	(90,796)	(276,407)	(43,087)
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,431,513)</u>	<u>\$ 1,871,416</u>	<u>\$ 1,425,858</u>	<u>\$ 1,865,761</u>	<u>\$ 1,292,842</u>
Schedule of Non-Cash Capital and Related Financing Activities					
Contributed capital assets	\$ 102,175	\$ 145,251	\$ 366,767	\$ 614,193	\$ -
Increase (decrease) in fair value of investments	(34,105)	(18,952)	(10,548)	(63,605)	(14,193)
Total Non-Cash Activities	<u>\$ 68,070</u>	<u>\$ 126,299</u>	<u>\$ 356,219</u>	<u>\$ 550,588</u>	<u>\$ (14,193)</u>

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2021

	Pension (and Other Employee Benefit) Trust Funds	Custodial Funds
Assets		
Cash and cash equivalents	\$ 1,033	\$ 7,374
Investments	31,338,541	-
Notes receivable from participants	199,980	-
Total Assets	31,539,554	7,374
Liabilities		
Vouchers payable	-	11,057
Intergovernmental payable	-	-
Total Liabilities	-	11,057
Net Position		
Restricted for pensions	31,539,554	-
Restricted for other governments	-	(3,683)

See accompanying notes to the basic financial statements

City of Mountlake Terrace
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2021

	Pension (and Other Employee Benefit) Trust Funds	Custodial Funds
Additions:		
Participant contributions	\$ 1,276,576	\$ -
State building fees collected	-	3,193
Gun permit fees collected	-	3,933
Public safety fees collected	-	75,298
Gains/losses on investments	3,461,665	
Total Additions	4,738,241	82,424
Deductions:		
State building fees remitted	-	3,093
Gun permit fees remitted	-	3,933
Public safety fees remitted	-	75,156
Participant disbursements	2,595,236	-
Total Deductions	2,595,236	82,182
Change in Net Position	2,143,005	242
Net Position Beginning of Year	29,396,549	(3,925)
Net Position End of Year	\$ 31,539,554	\$ (3,683)

See accompanying notes to the basic financial statements



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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.

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 construction 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.

Real Estate Excise Tax Fund - This is a capital projects fund that accounts for the financial resources generated from real estate excise taxes, and related spending on eligible capital 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.

Additionally, the City reports the following fund types:

Pension (and Other Employee Benefit) Trust Funds are used to account for cash and other assets received and held by the City in a trustee capacity.

Custodial Funds are used to account for assets held by the City in a custodial capacity and do not involve measurement of results of operations. The City uses these funds to account for various deposits payable to State and local agencies.

1-C. Measurement Focus, Basis of Accounting

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



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

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

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

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

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.

1-D. Budgetary Information

Scope of Budget

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

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

Appropriations for all funds lapse at year-end.

***Amending the Budget***

The City Manager or Finance Director may approve budget transfers between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. When City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by a simple majority. The budget was amended by ordinance once in 2021. 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.

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. 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	20 - 50 Years	20 - 50 Years
Improvements	10 - 30 Years	10 - 30 Years
Machinery and equipment	3 - 20 Years	3 - 20 Years
Infrastructure	7 - 75 Years	18.5 - 75 Years

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

1-E-6 Compensated Absences

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

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

Earned compensatory time is accrued at December 31, 2021. 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.

For purposes of calculating the restricted net position related to the net pension asset, the City includes the net pension asset and the related deferred outflows and deferred inflows.

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 the these funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year. Bonds and local loans are recognized as a liability in the governmental fund financial statements when due.

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

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

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

1-E-10 Fund Balance Classification

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

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

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



- **Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The City reports positive unassigned fund balance only in the general fund. Negative unassigned fund balances may be reported in all funds.

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

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

- Committed
- Assigned
- Unassigned

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

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

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.

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 annual 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, 2021 was \$25,030,360.

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, 2021, 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	2.44	\$ 8,926,390	-	\$ 8,926,390
Federal Home Loan Bank	4.23	\$ 1,975,794	-	\$ 1,975,794
Federal National Mortgage Association	1.81	\$ 2,025,712	-	\$ 2,025,712
Total		<u>\$ 12,927,896</u>	<u>\$ -</u>	<u>\$ 12,927,896</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, 2021, are:



Debt Security	S & P Rating
Federal Farm Credit Bank	AAA
Federal Home Loan Bank	AAA
Federal National Mortgage Association	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, a government-sponsored enterprise, which are not explicitly backed by the federal government, are 84% of the City’s total investment portfolio market value.

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, 2021, 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	\$ 12,927,896	\$ 12,927,896	\$ -
Total Investments	\$ 12,927,896	\$ 12,927,896	\$ -

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.

3-D. Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

Governmental Activities: (including Internal Service fund):	Beginning Balance 1/1/2021	Increases	Decreases	Ending Balance 12/31/2021
Nondepreciable capital assets:				
Land	\$ 3,621,904	\$ -	\$ -	\$ 3,621,904
Construction in Progress*	13,716,983	\$5,008,107	2,156,352	16,568,738
Total nondepreciable capital assets	17,338,887	5,008,107	2,156,352	20,190,642
Depreciable capital assets				
Buildings	13,397,423	-	-	13,397,423
Improvements other than buildings	1,545,084	2,156,352	11,142	3,690,294
Machinery & equipment	6,733,113	706,613	49,634	7,390,092
Infrastructure	47,859,870	764,194	\$0	48,624,064
Total depreciable capital assets	69,535,490	3,627,159	60,776	73,101,873
Total capital assets	86,874,377	8,635,266	2,217,128	93,292,515
Less accumulated depreciation for:				
Buildings	9,842,516	247,613	-	10,090,129
Improvements other than buildings	1,369,670	85,034	-	1,454,704
Machinery & Equipment	5,186,422	409,738	49,634	5,546,526
Infrastructure	23,569,684	\$2,136,315	11,142	25,694,857
Total accumulated depreciation	39,968,292	2,878,700	60,776	42,786,216
Governmental activities capital assets, net	\$ 46,906,085	\$ 5,756,566	\$ 2,156,352	\$ 50,506,299

*Beginning balance restated



	Beginning Balance 1/1/2021	Increases	Decreases	Ending Balance 12/31/2021
Business-Type Activities:				
Nondepreciable capital assets:				
Land	\$ 2,128,469	-	-	\$ 2,128,469
Construction in Progress	797,775	632,964	610,673	820,066
Total nondepreciable capital assets	2,926,244	632,964	610,673	2,948,535
Depreciable capital assets:				
Buildings	2,744,174	-	-	2,744,174
Improvements other than buildings	21,168	-	-	21,168
Machinery & equipment	586,090	648,292	-	1,234,382
Infrastructure	54,958,085	614,193	-	55,572,278
Intangibles	1,827,240	-	-	1,827,240
Total depreciable capital assets	60,136,757	1,262,485	-	61,399,242
Total capital assets	63,063,001	1,895,449	610,673	64,347,777
Less accumulated depreciation for:				
Buildings	1,424,541	85,579	-	1,510,120
Improvements other than buildings	21,168	-	-	21,168
Machinery & equipment	549,755	17,215	-	566,970
Infrastructure	22,237,758	1,129,209	-	23,366,967
Intangibles	1,827,240	-	-	1,827,240
Total accumulated depreciation	26,060,463	1,232,003	-	27,292,466
Business-type activities capital assets, net	\$ 37,002,538	\$ 663,446	\$ 610,673	\$ 37,055,311

Depreciation Expense by Function**GOVERNMENTAL ACTIVITIES**

General Government	\$51,204
Public Safety	165,970
Physical Environment	283,700
Transportation	2,140,068
Economic Environment	2,240
Culture & Recreation	235,518
Total Depreciation Expense - Governmental Activities	<u>2,878,700</u>

BUSINESS-TYPE ACTIVITIES

Sewer	203,722
Water	678,617
Storm Water	349,665
Total Depreciation Expense - Business-Type Activities	<u>1,232,004</u>



3-E. - Interfund Transfers & Loans

Interfund transfers for the year ended December 31, 2021, consisted of the following:

Transfers To:	Transfers From:		
	General Fund	Real Estate Excise Tax Fund	Total
Street Construction Fund	\$ 200,000	\$ 442,170	\$ 642,170
Capital Improvements Fund	400,000	409,675	809,675
Nonmajor Governmental Funds	1,310,425	115,000	1,425,425
Total	\$ 1,910,425	\$ 966,845	\$ 2,877,270

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 Liabilities

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 two outstanding general obligation bonds, as follows:

Bond Issue	Purpose	Range	Rate	Original Issue 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



Annual debt service requirements to amortize general obligations bonds outstanding, as of December 31, 2021 follow:

Year	Principal	Interest	Total
2022	345,000	475,813	820,813
2023	245,000	466,475	711,475
2024	255,000	456,675	711,675
2025	265,000	446,475	711,475
2026	270,000	437,200	707,200
2027-2031	1,535,000	2,013,800	3,548,800
2032-2036	1,875,000	1,670,100	3,545,100
2037-2041	2,385,000	1,164,750	3,549,750
2042-2046	3,015,000	525,400	3,540,400
2047	680,000	27,200	707,200
Total	<u>\$ 10,870,000</u>	<u>\$ 7,683,888</u>	<u>\$ 18,553,888</u>

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, 2021 follow:

Year	Principal	Interest	Total
2022	82,383	412	82,795
Total	<u>\$ 82,383</u>	<u>\$ 412</u>	<u>\$ 82,795</u>

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

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, 2021, follow:



Year	Principal	Interest	Total
2022	\$ 250,000	\$ 95,550	\$ 345,550
2023	255,000	88,050	343,050
2024	265,000	80,400	345,400
2025	270,000	72,450	342,450
2026	280,000	64,350	344,350
2027-2031	1,530,000	190,650	1,720,650
2032	335,000	10,050	345,050
Total	<u>\$ 3,185,000</u>	<u>\$ 601,500</u>	<u>\$ 3,786,500</u>

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, 2021, follow:

Year	Principal	Interest	Total
2022	\$ 270,000	\$ 181,400	\$ 451,400
2023	285,000	170,600	455,600
2024	295,000	159,200	454,200
2025	305,000	147,400	452,400
2026	320,000	135,200	455,200
2027-2031	1,800,000	474,000	2,274,000
2032-2034	1,260,000	102,000	1,362,000
Total	<u>\$ 4,535,000</u>	<u>\$ 1,369,800</u>	<u>\$ 5,904,800</u>

Water and Sewer Revenue Bonds, Direct Placement, Series 2020 Refunding – On December 29, 2020 the City issued revenue bonds with a par value of \$3,285,000 for the purpose of generating resources for future debt service payments on \$3,700,000 of refunded debt. The proceeds were placed in an irrevocable trust. The refunded bonds fully refunded the 2010 revenue bonds. These bonds are considered defeased and the liability has been removed from the statement of net position. These bonds were sold via direct placement and not rated.

Annual debt service requirements to amortize the direct placement refunding bonds outstanding as of December 31, 2021, follow:

Year	Principal	Interest	Total
2022	\$ 305,000	\$ 51,232	\$ 356,232
2023	315,000	45,971	360,971
2024	320,000	40,537	360,537
2025	325,000	35,018	360,018
2026	330,000	29,411	359,411
2027-2030	1,375,000	59,858	1,434,858
Total	<u>\$ 2,970,000</u>	<u>\$ 262,027</u>	<u>\$ 3,232,027</u>



Water and Sewer Revenue Bonds, Direct Placement, Series 2020 – On December 29, 2020, the City issued \$2,500,000 of revenue bonds at a coupon interest rate of 2.02%. The bonds mature December 1, 2035. The purpose of this issue is to finance a payment to the City of Edmonds for costs of sewer treatment. These bonds were sold via direct placement and not rated.

Annual debt service requirements to amortize the direct placement revenue bonds outstanding, as of December 31, 2021, follow:

Year	Principal	Interest	Total
2022	\$ 150,000	\$ 47,773	\$ 197,773
2023	150,000	44,743	194,743
2024	155,000	41,713	196,713
2025	155,000	38,582	193,582
2026	160,000	35,451	195,451
2027-2031	850,000	127,361	977,361
2032-2035	745,000	37,976	782,976
Total	<u>\$ 2,365,000</u>	<u>\$ 373,599</u>	<u>\$ 2,738,599</u>

Other Outstanding Liabilities – 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	\$ 783,611
Sick leave	373,773
Compensatory time	27,733
Total	<u>\$ 1,185,117</u>



Changes in Long-term Liabilities - Changes in the City's long-term obligations consisted of the following for the year ended December 31, 2021:

	Outstanding 1/1/2021	Additions	Reductions	Outstanding 12/31/2021	Amounts Due in One Year
Governmental Activities					
General obligation bonds	\$ 11,210,000	\$ -	\$ 340,000	\$ 10,870,000	\$ 345,000
Unamortized bond premium	921,252	-	34,121	887,131	34,121
Net pension liabilities	2,023,024	-	1,623,474	399,550	-
Compensated absences	1,038,001	5,223	-	1,043,224	208,645
Total OPEB liability	10,907,304	-	70,607	10,836,697	430,007
Total Governmental Activities	<u>\$ 26,099,581</u>	<u>\$ 5,223</u>	<u>\$ 2,068,202</u>	<u>\$ 24,036,602</u>	<u>\$ 1,017,773</u>
Business-Type Activities					
Public works trust fund loan	\$ 181,366	\$ -	\$ 98,983	\$ 82,383	\$ 82,383
Utility revenue bonds	8,225,000	-	505,000	7,720,000	520,000
Unamortized bond premium	573,430	-	43,778	529,652	43,778
Direct placement bonds	5,785,000	-	450,000	5,335,000	455,000
Net pension liabilities	325,222	-	215,114	110,108	-
Compensated absences	169,800	-	27,907	141,893	28,379
Total Business-Type Activities	<u>\$ 15,259,818</u>	<u>\$ -</u>	<u>\$ 1,340,782</u>	<u>\$ 13,919,036</u>	<u>\$ 1,129,540</u>

The general obligation bonds and the local loan are being retired by the debt service fund. The governmental portion of the compensated absences liability, net pension liability, and total OPEB liability have historically been liquidated by the general fund. 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 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%). The 2020 water and sewer refunding direct placement bonds are being retired by water utility fund (41.67%), sewer utility fund (16.67%) and the storm water utility fund (41.67%). The 2020 water and sewer revenue direct placement bonds are being retired by the sewer utility fund.

3-G. Operating Lease

The City has an operating lease for use of City Hall which expired June 30, 2021.

3-H. Pensions

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 509,658
Pension assets	\$ 11,116,283
Deferred outflows of resources	\$ 1,155,155
Deferred inflows of resources	\$ 8,375,781



Pension expense/expenditures	\$ 2,138,088
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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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Or the DRS ACFR financial report 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.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%
July – December 2021		
PERS Plan 1	10.07	6.00%
Administrative Fee	0.18%	



Total	10.25%	6.00%
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The city's actual contributions to the plan were \$301,061 for the year ended December 31, 2021.

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%
July – December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%



The city's actual contributions to the plan were \$498,943 for the year ended December 31, 2021.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2020. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate 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 state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2021.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – June 2021		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%



July – December 2021		
State and local governments	5.12%	8.53%
Administrative Fee	.18%	
Total	8.53%	8.53%

The city's actual contributions to the plan were \$156,717 for the year ended December 31, 2021.

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, 2021, the state contributed \$78,170,320 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$99,093.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, 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 developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for each year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

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 was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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% 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, 2021, 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%	2.20%
Tangible Assets	7%	5.10%
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	\$868,230	\$509,658	\$196,945
PERS 2/3	(1,511,648)	(5,306,250)	(8,431,107)
LEOFF 1	(1,201,276)	(1,334,359)	(1,449,499)
LEOFF 2	(2,822,363)	(4,475,673)	(5,829,405)

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, 2021 the city reported a total pension liability of \$509,658 and a total pension asset of \$11,116,283 for its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	\$ 509,658
PERS 2/3	(5,306,250)
LEOFF 1	(1,334,359)
LEOFF 2	(4,475,673)

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	(\$1,334,359)	(\$4,475,673)
State's proportionate share of the net pension asset associated with the employer	(9,025,572)	(2,887,298)
TOTAL	(\$10,359,931)	(\$7,362,971)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.045588%	0.041733%	0.003855%
PERS 2/3	0.057762%	0.053267%	0.004495%
LEOFF 1	0.041363%	0.038953%	0.002410%
LEOFF 2	0.080217%	0.077055%	0.003162%

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 2020. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2020, 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 2021, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW



41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

Pension Expense

For the year ended December 31, 2021 the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (232,396)
PERS 2/3	(1,214,835)
LEOFF 1	(153,657)
LEOFF 2	(537,201)
TOTAL	\$ (2,138,088)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021 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	\$ 565,549
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	\$ 135,260	\$ 0
TOTAL	\$ 135,260	\$ 565,549

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 257,717	\$ 65,049
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 4,434,781
Changes of assumptions	\$ 7,754	\$ 376,832
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 113,796	\$ 133,458
Contributions subsequent to the measurement date	\$ 229,303	\$ 0
TOTAL	\$ 608,570	\$ 5,010,120



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	\$ 407,729
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	\$ 407,729

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 202,999	\$ 23,654
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	\$ 2,134,033
Changes of assumptions	\$ 1,935	\$ 212,863
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 126,380	\$ 21,833
Contributions subsequent to the measurement date	\$ 80,010	\$ 0
TOTAL	\$ 411,325	\$ 2,392,383

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, 2022. 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
2022	\$ (149,814)	\$ (1,224,281)	\$ (108,307)	\$ (556,820)
2023	(137,284)	(1,144,603)	(99,067)	(518,004)
2024	(129,808)	(1,081,658)	(93,479)	(488,677)
2025	(148,643)	(1,157,873)	(106,875)	(551,832)
2026	-	(17,318)	-	4,675
Thereafter	-	(5,120)	-	49,590

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 2021, 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, 2021 was \$10,498,194.

The City's contribution rates, expressed as a percentage of covered payroll, and actual contributions for the year ended December 31, 2021 were:

	Contribution Rate	Amount
Employer	4.96%	\$ 502,394
Employee	6.2%, 7.5% or 7.65%	\$ 652,024

The market value of assets available for plan benefits as of December 31, 2021 is \$36,751,547. Assets of the plan (less deferred compensation) are reported in the Fiduciary Funds financial statements.

3-1. 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 2021:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 10,836,697
Deferred outflows of resources	\$ 215,003
Net OPEB expenditures	\$ 112,412

Plan Description - As required by the Revised Code of Washington (RCW) Chapter 41.26, the City provides lifetime medical care for 19 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.

(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;
 - 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 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 Rate²	
Beginning of Measurement Year	2.21%
End of Measurement Year	2.16%
Healthcare Trend Rates³	
Medical Costs	Initial rate is about 5.3%, trends down to about 5.0% in the 2020's.
Long-Term Care	4.5%
Medicare Part B Premiums	Approximately 5.0%, varies by year.
Mortality Rates (Assume 100% Male Population)¹	
Base Mortality Table	PubS.H-2010 (Public Safety) Blended 50%/50% Healthy/Disabled
Age Setback	-1 year Healthy / 0 years Disabled
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Medicare Participation Rate	100%

¹ See the Additional Disclosures tab for more details and guidance.

² Source: Bond Buyer General Obligation 20-Bond Municipal Index.

³ For additional detail on the healthcare trend rates, please see OSA's [2020 LEOFF 1 OPEB Actuarial Valuation Report](#).

Sensitivity Analysis

Sensitivity Analysis			
Total OPEB Liability	1% Decrease	Current	1% Increase
Discount Rate	\$12,258,679	\$10,836,697	\$9,647,456
Healthcare Trend	\$9,704,560	\$10,836,697	\$12,155,679

Changes in the Total OPEB Liability

Schedule of Changes in Total OPEB Liability and Related Ratios	
Measurement Date of June 30, 2021	
Total OPEB Liability (TOL)	
Service Cost ¹	\$0
Interest Cost	\$236,499
Changes in Experience Data and Assumptions	\$107,158
Changes in Benefit Terms	\$0
Estimated Benefit Payments	(\$414,264)
Other	\$0
Net Change in Total OPEB Liability	(\$70,607)
Total OPEB Liability - Beginning	\$10,907,304
Total OPEB Liability - Ending	\$10,836,697



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 \$215,003 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, 2022.

3-J. Fund Balance and 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 and prepaids	<u>\$ 32,134</u>
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- **Restricted** – The following fund balances are legally restricted to specified purposes:

Street Construction Fund:

Street construction	<u>\$ 978,218</u>
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Capital Improvements Fund:

Park improvements	\$ 1,326,457
Cable improvements	229,124

Total Capital Improvements Fund:	<u>\$ 1,555,581</u>
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Real Estate Excise Tax Fund

Capital outlay	<u>\$ 4,959,045</u>
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Total Real Estate Excise Tax Fund:	<u>\$ 4,959,045</u>
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Nonmajor Governmental Funds:

Tourism promotion	<u>\$ 85,471</u>
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Total Nonmajor Governmental Funds:	<u>\$ 85,471</u>
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- **Committed** – The following fund balances are committed to specific purposes:

Nonmajor Governmental Funds:

Rental housing inspections	<u>274,214</u>
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- **Assigned** – The following fund balances are assigned to specific purposes:

**General Fund**

Working Capital	873,731
Catastrophic fluctuations	847,218
Accrued leave	57,261
Service charge relief	129,562
Total General Fund	\$ 1,907,772

Street Construction Fund

Street Construction	\$ 2,954,195
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Capital Improvement Fund

Capital assets	\$ 39,266
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Nonmajor Governmental Funds

Street repairs and maintenance	816,579
Debt service	38,795
Total Nonmajor Governmental Funds	\$ 855,374

Net Investment in Capital Assets – The net investment in capital assets, reported on the government-wide statement of net position as of December 31, 2021 are as follows:

	Governmental Activities	Business-Type Activities
Net investment in capital assets:		
Total capital assets	\$ 93,292,515	\$ 64,347,777
Less accumulated depreciation	(42,786,216)	(27,292,466)
Net capital assets	50,506,299	37,055,311
Less capital related debt	(10,870,000)	(10,772,383)
Less deferred inflow - gain on refunding	-	(98,498)
Less unamortized bond premium	(887,131)	(529,651)
Net investment in capital assets	\$ 38,749,168	\$ 25,654,779

3-K. Tax Abatements

In 2021, \$60,131 in tax abatements were granted by the city related to the State of Washington's multi-unit urban housing property tax exemption program. As authorized by RCW 84.14.020 this exemption program exempts qualifying new construction, conversion and rehabilitation projects from property taxation for a period of eight to 20 years.

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 166 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, with a \$50,000 deductible. 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. 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 \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

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

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

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

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, 2021. 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2021, AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

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

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 the report for the fiscal year ended December 31, 2018. 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 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 \$730,684 on December 31, 2021. Snohomish County 911's 2021 operating budget was \$24,429,390, operating revenues received were \$24,450,056 and total operating expenditures were \$23,395,721. 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:

Fiscal Year Ended 6/30	AHA Budget	City's Share	
		Amount	Percentage
2014	\$ 89,850	\$ 1,188	1.32%
2015	92,543	1,224	1.32%
2016	93,651	1,202	1.28%
2017	97,934	1,808	1.85%
2018	102,586	2,001	1.95%
2019	107,391	2,124	1.98%
2020	112,408	2,242	1.99%
2021	117,673	2,252	1.91%
2022	118,200	2,233	1.89%

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.

4-E. Encumbrance Commitments

As of December 31, 2021, 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	\$ 1,161,712
Street Construction Fund	4,298,450
Capital Improvements Fund	<u>2,987,715</u>
<i>Total Major Governmental Funds</i>	<i>\$ 8,447,877</i>

4-F. COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of Covid-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

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

The length of time these measures were in place, and the full extent of the financial impact on the city was unknown at that time.

During 2021 revenues and expenditures either came in higher or lower than forecasted and budget amendments were done to better reflect the increases or decreases. The Recreation Fund came in lower than expected due to the pandemic so an additional transfer was done from the General Fund to the Recreation Fund. Sales Tax revenue came in higher in the General Fund than anticipated.

2021-2022 COVID-19 Emergency Relief Funding

In April of 2021, the U.S. Government established the American Rescue Plan Act of 2021 to provide emergency funding related to the ongoing COVID-19 crisis. The plan included \$350 billion in funding for state, local, territorial and tribal governments. The City of Mountlake Terrace was allocated \$5.9 million in Coronavirus State and Local Fiscal Recovery Funds. Half of the funding was received in June 2021 with the other half expected twelve months later in 2022. The funds were distributed to the State of Washington and then allocated to other jurisdictions. Program guidelines provide substantial flexibility for each jurisdiction to meet local needs—including support for households, small businesses, impacted industries, essential workers, and the communities' hardest-hit by the crisis. Within the categories of eligible uses listed, recipients have broad flexibility to decide how best to use this funding to meet the needs of their communities. Program rules include a methodology for using funds to recover lost revenues. As of the time this report was filed, the City has not yet determined a comprehensive plan for how the full amount of funding will be allocated.

4-G. Prior Period Adjustments

A prior period adjustment of \$148,715 is reported in the governmental activities section of the Statement of Activities, to reflect correction of capital asset balances reported in 2020.

4-H. Subsequent Events

Standard & Poor's (S&P) withdrew its rating of the 2018 bonds in January 2023. An explanation of the significance of the rating action can be obtained from S&P. The City is working to submit all outstanding financial reports.

City of Mountlake Terrace
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual - Budget Basis
For the Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 14,474,221	\$ 13,950,013	\$ 15,875,027	\$ 1,925,014
Licenses and permits	1,370,815	1,870,137	2,228,148	358,011
Intergovernmental	623,501	3,625,464	617,814	(3,007,650)
Charges for services	1,543,150	1,508,150	1,561,946	53,796
Fines and forfeitures	265,225	265,225	114,958	(150,267)
Rents and leases	18,000	-	16,369	16,369
Investment earnings	6,094	6,094	8,955	2,861
Miscellaneous	10,428	10,576	167,797	157,221
Total Revenues	18,311,434	21,235,659	20,591,014	(644,645)
Expenditures				
Current:				
General government	2,052,486	2,412,486	2,210,844	201,642
Judicial	937,321	750,000	695,528	54,472
Public safety	10,126,889	10,126,889	9,535,145	591,744
Physical environment	1,196,869	1,241,869	1,420,487	(178,618)
Community development	510,282	640,282	673,577	(33,295)
Culture and recreation	919,848	919,848	833,947	85,901
Total Expenditures	15,743,695	16,091,374	15,369,528	721,846
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,567,739	5,144,285	5,221,486	77,201
Other Financing (Uses)				
Transfers out	(2,710,425)	(3,010,425)	(3,010,425)	-
Net Change in Fund Balances	\$ (142,686)	\$ 2,133,860	2,211,061	\$ 77,201
Fund Balances Beginning of Year			6,052,294	
Fund Balances End of Year			\$ 8,263,355	

The General Fund, as presented for financial reporting purposes, includes the separately adopted budgets of the General Fund, Strategic Reserve Fund, Accumulated Leave Reserve Fund, Recreation Programs Fund and Solid Waste Fund on the GAAP basis. This schedule presents the information of the legally adopted General Fund budget only. Reference attached Note 1 to RSI for a reconciliation of budget to GAAP basis.

City of Mountlake Terrace
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Note to RSI

Explanation of Difference Between General Fund Budgeted Revenues and Expenditures and GAAP Revenues and Expenditures- The General Fund, as presented for financial reporting purposes, includes the separately adopted budgets of the General Fund, Strategic Reserve Fund, Accumulated Leave Reserve Fund, Recreation Programs Fund and Solid Waste Fund on the GAAP basis. The funds listed below are consolidated into the General Fund for reporting purposes.

Revenues

General Fund	20,591,014
Strategic Reserve Fund	(1,351)
Accumulated Leave Reserve Fund	(91)
Recreation Programs Fund	1,122,179
Solid Waste Fund	48,023
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - general fund	<u><u>21,759,774</u></u>

Expenditures

General Fund	15,369,528
Strategic Reserve Fund	-
Accumulated Leave Reserve Fund	-
Recreation Programs Fund	2,344,557
Solid Waste Fund	46,460
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - general fund	<u><u>17,760,545</u></u>

Other Financing Sources (Uses)

General Fund	(3,010,425)
Strategic Reserve Fund	-
Accumulated Leave Reserve Fund	-
Recreation Programs Fund	1,100,000
Solid Waste Fund	-
Total other financing sources (uses) as reported on the statement of revenues, expenditures and changes in fund balance - general fund	<u><u>(1,910,425)</u></u>

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
Last 7 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	%	0.0486950%	0.0459570%	0.0429480%	0.0426210%	0.0441220%	0.0455880%	0.0417330%
Employer's proportionate share of the net pension liability	\$	2,547,201	2,468,107	2,037,916	1,903,468	1,696,648	1,609,503	509,658
Employer's covered payroll	\$	5,442,397	5,387,654	5,275,027	5,526,007	6,132,584	6,806,576	6,387,073
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	46.80%	45.81%	38.63%	34.45%	27.67%	23.65%	7.98%
Plan fiduciary net position as a percentage of the total pension liability	%	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%	88.74%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System - Plan 2/3
As of June 30
Last 7 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	%	0.0615440%	0.0560520%	0.0526830%	0.0518500%	0.0556880%	0.0577620%	0.0532670%
Employer's proportionate share of the net pension liability (asset)	\$	2,199,002	2,822,174	1,830,482	885,293	540,920	738,743	(5,306,250)
Employer's covered payroll	\$	5,442,397	5,387,654	5,165,933	5,416,251	6,074,861	6,747,767	6,371,039
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	%	40.41%	52.38%	35.43%	16.35%	8.90%	10.95%	-83.29%
Plan fiduciary net position as a percentage of the total pension liability (asset)	%	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%	120.29%

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
Last 7 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	%	0.0451300%	0.0456180%	0.0461380%	0.0448040%	0.0430650%	0.0413630%	0.0389530%
Employer's proportionate share of the net pension liability (asset)	\$	(543,916)	(469,996)	(700,015)	(813,418)	(851,228)	(781,144)	(1,334,359)
State's proportionate share of the net pension liability (asset) associated with the employer	\$	(3,679,034)	(3,179,040)	(4,734,884)	(5,501,936)	(5,757,682)	(5,283,638)	(9,025,572)
TOTAL	\$	(4,222,950)	(3,649,036)	(5,434,899)	(6,315,354)	(6,608,910)	(6,064,782)	(10,359,931)
Employer's covered payroll	\$	0	0	0	0	0	0	0
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	%	0.00%	0.00%	0.00%	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%	148.78%	146.88%	187.45%

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
Last 7 Fiscal Years

		2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	%	0.0910980%	0.0875740%	0.0801770%	0.0834240%	0.0812220%	0.0802170%	0.0770550%
Employer's proportionate share of the net pension liability (asset)	\$	(936,305)	(509,357)	(1,112,597)	(1,693,689)	(1,881,664)	(1,636,310)	(4,475,673)
State's proportionate share of the net pension liability (asset) associated with the employer	\$	(409,091)	(405,618)	(721,721)	(1,096,632)	(1,232,238)	(1,046,296)	(2,887,298)
TOTAL	\$	(1,345,396)	(914,975)	(1,834,318)	(2,790,321)	(3,113,902)	(2,682,606)	(7,362,971)
Employer's covered payroll	\$	2,675,611	2,637,757	2,502,316	2,761,003	2,837,552	3,039,750	2,984,793
Employer's proportionate share of the net pension asset as a percentage of covered payroll	%	34.99%	19.31%	44.46%	61.34%	66.31%	53.83%	149.95%
Plan fiduciary net position as a percentage of the total pension liability	%	111.67%	106.04%	111.36%	118.50%	119.43%	115.83%	142.00%

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
Last 7 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021
<u>Statutorily or contractually required contributions</u> \$	307,048	337,731	267,691	301,749	324,126	313,105	301,061
Contributions in relation to the statutorily or contractually required contributions \$	(307,048)	(337,731)	(267,691)	(301,749)	(324,126)	(313,105)	(301,061)
<u>Contribution deficiency (excess)</u> \$	<u>0</u>	<u>0</u>	<u>0</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	6,476,073	6,462,382	6,865,238
<u>Contributions as a percentage of covered payroll</u> %	5.70%	6.33%	5.04%	5.16%	5.00%	4.85%	4.39%

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

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Mountlake Terrace, Washington
Schedule of Employer Contributions
Public Employees' Retirement System - Plan 2/3
For the year ended December 31
Last 7 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021
Statutorily or contractually required contributions	\$ 307,048	337,731	356,726	432,014	495,699	508,145	498,943
Contributions in relation to the statutorily or contractually required contributions	\$ (307,048)	(337,731)	(356,726)	(432,014)	(495,699)	(508,145)	(498,943)
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0
Covered payroll	\$ 5,384,386	5,339,507	5,197,007	5,761,918	6,417,942	6,416,242	6,865,238
Contributions as a percentage of covered payroll %	5.70%	6.33%	6.86%	7.50%	7.72%	7.92%	7.27%

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
Last 7 Fiscal Years

	2015	2016	2017	2018	2019	2020	2021
Statutorily or contractually required contributions	\$ 136,795	128,727	133,651	153,052	153,737	153,185	156,717
Contributions in relation to the statutorily or contractually required contributions	\$ (136,795)	(128,727)	(133,651)	(153,052)	(153,737)	(153,185)	(156,717)
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0
Covered payroll	\$ 2,708,819	2,549,059	2,593,181	2,907,625	2,956,005	2,974,281	3,052,832
Contributions as a percentage of covered payroll %	5.05%	5.05%	5.15%	5.26%	5.20%	5.15%	5.13%

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	2019	2020	2021
Total OPEB liability - beginning	10,751,652	10,366,342	11,128,742	10,907,304
Service cost	-	-	-	-
Interest	377,780	393,990	381,186	236,499
Changes in benefit terms	-	-	-	-
Changes in experience data and assumptions	(361,296)	743,388	(123,067)	107,158
Benefit payments	(401,794)	(374,978)	(479,557)	(414,264)
Other changes	-	-	-	-
Total OPEB liability - ending	<u>10,366,342</u>	<u>11,128,742</u>	<u>10,907,304</u>	<u>10,836,697</u>
Covered-employee payroll	-	-	-	-
Total OPEB liability as a % of covered payroll	n/a	n/a	n/a	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 Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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