



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

City of Mukilteo

For the period January 1, 2020 through December 31, 2020

Published March 7, 2022

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

March 7, 2022

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Mukilteo's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

City of Mukilteo January 1, 2020 through December 31, 2020

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Mukilteo are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs, with the exception of the 21.019 – COVID-19 – Coronavirus Relief Fund on which we issued a qualified opinion on compliance with applicable requirements.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
21.019	COVID-19 – Coronavirus Relief Fund
97.039	Hazard Mitigation Grant

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2020-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

City of Mukilteo January 1, 2020 through December 31, 2020

2020-001 The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable activities and costs.

CFDA Number and Title:	21.019 – COVID-19 – Coronavirus Relief Fund
Federal Grantor Name:	U.S. Department of the Treasury
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Commerce
Pass-through Award/Contract Number:	20-6541C-259
Questioned Cost Amount:	\$300,000

Background

The purpose of the Coronavirus Relief Fund (CRF) is to provide payments to state, territorial, tribal, and certain eligible local governments to cover necessary expenditures incurred because of the COVID-19 pandemic.

In 2020, the City spent \$960,750 in CRF funds to cover additional costs the City incurred due to the pandemic, including teleworking equipment and payroll. Additionally, the City established a program that provided assistance payments to 55 local businesses financially affected by COVID-19. These assistance payments ranged between \$2,500 and \$10,000. While the City receives federal funds each year, it has not previously spent more than \$750,000 in federal funds, which is the threshold requiring a federal Single Audit.

Federal regulations require recipients to establish and maintain internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

For the CRF program, the costs that recipients submit for federal reimbursement must have been necessary for responding to the COVID-19 pandemic and not previously included in budgets prior to March 27, 2020. All costs recipients charge

to the CRF program must comply with program requirements and be supported by proper documentation demonstrating costs are specifically related to COVID-19 activities.

Description of Condition

The City established 14 eligibility criteria for local businesses to receive assistance payments, but it did not have a process for verifying that businesses met all these criteria. City employees did verify that businesses met three of the 14 criteria. However, for the remaining required criteria, City employees relied on each businesses' application and self-attestations without verifying the information was accurate to ensure businesses were eligible to receive assistance payments.

Additionally, the City issued program rules describing allowable and unallowable uses of its assistance payments. Program rules required local businesses to submit a report to the City by November 30, 2020, detailing how they used assistance funds and the outcomes they experienced. However, the City did not enforce the requirement to submit these reports, and City employees did not review any documentation to ensure local businesses spent assistance payments on allowable uses.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

The issue was not reported as a finding in the prior audit.

Cause of Condition

Many businesses experienced sudden financial hardship due to the COVID-19 pandemic. To help preserve its local economy, the City acted quickly by providing assistance payments to businesses. However, the CRF program was a new type of federal funding for the City. The City has not previously used federal funds to provide direct assistance payments to its residents or local businesses.

As such, City employees lacked adequate experience and needed training to know that they should have independently verified each business met all eligibility criteria before awarding assistance and followed up on the established reporting requirement.

Effect of Condition and Questioned Costs

Because the City did not obtain documentation verifying that local businesses met all the eligibility criteria, we could not determine whether these businesses were eligible to receive assistance payments. We also cannot determine whether local businesses spent assistance payments on allowable purposes because the City did not receive and review reports from them.

Additionally, we found that the City awarded \$5,000 of program funds to one business, even though it operated outside of City limits.

As a result of these circumstances, we are questioning the \$300,000 of local business assistance payments that the City charged to the CRF program.

Recommendation

We recommend the City provide adequate training to staff responsible for administering federal programs and dedicate the necessary resources to ensure compliance with all program requirements. This includes verifying that all funding recipients meet all of the City's eligibility criteria and other program requirements.

City's Response

The City of Mukilteo appreciates the opportunity to respond to the Washington State Auditor's Office's (SAO) conclusions. We would like to thank the audit staff for the open communication throughout the audit. The City is committed to establishing and following effective internal controls for administering federal grant requirements and compliance with federal uniform guidance for grant administration.

During 2020 the City endeavored to distribute Coronavirus Relief Funds as expeditiously as possible into the community where the support was needed due to the devastating impact on residents and businesses of the COVID-19 pandemic. Eligibility and reporting requirements were established for businesses to apply for and receive assistance payments. In the rush to get the grant money into the community as quickly as possible, the City did not confirm by requesting documentation from businesses that eligibility requirements were met as stated in the assistance guidelines and application process, but instead relied upon self-certification of eligibility requirements by businesses. Going forward, if similar circumstances exist in the future, the City will require assistance payment recipients provide documentation of meeting any stated eligibility requirements,

and that any subsequent reporting requirements the City might have are complied with.

The City would like to note that other eligible costs were incurred in excess of the questioned cost amount of \$300,000 in the areas of public safety, public health and other expenses. This does not relieve the City of the necessity to make sure assistance payments meet eligibility and reporting requirements, but the City would like to make clear that many other expenses were incurred during the pandemic that would have also been eligible costs under the Coronavirus Relief Fund, in excess of the \$300,000 questioned cost amount.

Auditor's Remarks

We appreciate the steps the City has taken to resolve this issue and will review the condition during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 42 U.S. Code of Federal Regulations (CFR) Part 801, Coronavirus Relief Fund establishes allowable costs of the program.

2 CFR Part 200, Subpart E, cost principles do not apply to the Coronavirus Relief Fund. Therefore, auditors refer to guidance and FAQs from the U.S. Department of the Treasury and the pass-through agency, the Washington State Department of Commerce, as the criteria when testing the allowability of costs under the Fund. Guidance and FAQs from both the U.S. Dept. of the Treasury and the Washington State Dept. of Commerce can be found at <https://www.commerce.wa.gov/serving-communities/local-government/covid-resiliency-grants/>. These documents speak to the grantors' expectation that local governments obtain documentation which supports how businesses met eligibility criteria.

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 Mukilteo January 1, 2020 through December 31, 2020

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2022.

As discussed in Note 16 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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


COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, 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

February 23, 2022

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

City of Mukilteo January 1, 2020 through December 31, 2020

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Mukilteo, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Basis for Qualified Opinion on 21.019 - Coronavirus Relief Fund

As described in Finding 2020-001 in the accompanying Schedule of Federal Award Findings and Questioned Costs, the City did not comply with requirements regarding 21.019 – COVID-19 – Coronavirus Relief Fund for Activities Allowed or Unallowed. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on 21.019 - Coronavirus Relief Fund

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 21.019 – COVID-19 – Coronavirus Relief Fund for the year ended December 31, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2020.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not

for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001 that we consider to be a material weakness.

City's Response to Findings

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

February 23, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

City of Mukilteo January 1, 2020 through December 31, 2020

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 16 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Combining Statement of Net Position – Internal Service Funds, Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds and Combining Statement of Cash Flows – Internal Service Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

February 23, 2022

FINANCIAL SECTION

City of Mukilteo January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Activities – 2020

Balance Sheet – Governmental Funds – 2020

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net
Position – 2020

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental
Funds – 2020

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities – 2020

Statement of Net Position – Proprietary Funds – 2020

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
– 2020

Statement of Cash Flows – Proprietary Funds – 2020

Statement of Fiduciary Net Position – Fiduciary Funds – 2020

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessment and Preservation of Infrastructure Eligible for Modified
Accounting Approach – 2020

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and
Actual – General Fund – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – LEOFF 1 OPEB Plan
– 2020

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,
LEOFF 1, LEOFF 2 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

Combining Statement of Net Position – Internal Service Funds – 2020

Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal
Service Funds – 2020

Combining Statement of Cash Flows – Internal Service Funds – 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the City of Mukilteo, Washington's ("the City") annual financial report, the City's management is pleased to provide this narrative discussion and analysis of the financial activities of the City for the calendar year ended December 31, 2020. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, note disclosures, and required supplemental information following this section.

Financial Highlights

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by \$220,112,954 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - 1) Net investment in capital assets of \$199,859,867 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - 2) \$7,310,267 of net position is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - 3) Unrestricted net position of \$12,942,820 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 \$11,811,318 this year. This compares to the prior year ending fund balance of \$9,977,928 showing an increase of \$1,833,390 or 18.4% during the current year. This maintains a stable fund balance.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$1,826,674 or 9.5% of total General Fund expenditures.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, deferred inflows and outflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report. The second government-wide statement is the Statement of Activities. This statement reports how the City's net position changed during the current calendar year. All current year revenues and expenses are included regardless of when the City receives or pays cash.

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

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

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

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

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to assist in understanding the differences between these two perspectives.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Combining and Individual Fund Statements

This section includes the combining fund financial statements for the City's internal service funds. Totals for the internal service funds are also reported in a separate column on the proprietary funds financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The following table provides a summary of the City's net position for the years ended December 31, 2020 and 2019:

City of Mukilteo
Summary of Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current assets	\$ 15,966,952	\$ 13,736,866	\$ 6,199,775	\$ 4,412,624	\$ 22,166,727	\$ 18,149,490
Capital assets	199,783,513	190,825,880	7,149,115	5,474,280	206,932,629	196,300,159
Other assets	4,358,754	4,779,453	-	-	4,358,754	4,779,453
Total assets	<u>220,109,220</u>	<u>209,342,198</u>	<u>13,348,890</u>	<u>9,886,904</u>	<u>233,458,110</u>	<u>219,229,103</u>
Deferred outflows	1,206,435	1,003,508	104,260	94,164	1,310,695	1,097,672
Current liabilities	2,978,873	1,789,765	384,548	102,803	3,363,421	1,892,568
Noncurrent liabilities	9,632,273	10,998,244	434,650	422,781	10,066,924	11,421,026
Total liabilities	<u>12,611,147</u>	<u>12,788,010</u>	<u>819,198</u>	<u>525,584</u>	<u>13,430,345</u>	<u>13,313,594</u>
Deferred inflows	1,105,192	2,147,484	120,313	191,276	1,225,505	2,338,760
Net position:						
Investment in capital assets	192,710,752	183,095,879	7,149,115	5,474,282	199,859,867	188,570,160
Restricted	7,310,267	6,490,996	-	-	7,310,267	6,490,996
Unrestricted	<u>7,578,296</u>	<u>5,823,339</u>	<u>5,364,524</u>	<u>3,789,926</u>	<u>12,942,820</u>	<u>9,613,265</u>
Total net position	<u>\$207,599,316</u>	<u>\$195,410,213</u>	<u>\$ 12,513,639</u>	<u>\$ 9,264,208</u>	<u>\$220,112,954</u>	<u>\$204,674,421</u>

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 5.36 to 1 at December 31, 2020. The current ratio for the business-type activities at December 31, 2019 is 16.12 to 1. For the City overall, the current ratio is 6.59 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased by \$12,189,101 for governmental activities and increased by \$3,249,431 for business-type activities. The City's overall financial position increased during calendar year 2020 by \$15,438,532.

The City reported that 92.8% of the governmental activities' net position is tied up in capital, such as land, building, and infrastructure. The City uses these capital assets to provide services to its citizens. In business-type activities, the City reports 57.1% of its net position as its net capital investment. Capital assets in the business-type activities provide surface water services and generate revenues for this fund. Overall, 90.8% of the City's total net position is included in net investment in capital assets.

Change in Net Position

The following table provides a summary of the City's changes in net position for the years ended December 31, 2020 and 2019:

City of Mukilteo
Summary of Changes in Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	Restated				Restated	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 4,899,756	\$ 4,234,749	\$ 3,917,181	\$ 3,540,220	\$ 8,816,937	\$ 7,774,969
Operating grants & contributions	3,293,621	1,734,895	5,810	-	3,299,431	1,734,895
Capital grants & contributions	9,914,631	1,170,618	1,706,739	72,490	11,621,370	1,243,108
General revenues:						
Property taxes	7,579,452	7,484,400	-	-	7,579,452	7,484,400
Other taxes	8,386,808	8,270,464	-	-	8,386,808	8,270,464
Miscellaneous revenue	102,218	83,159	(568)	-	101,650	83,159
Investment earnings	127,251	262,779	-	15,133	127,251	277,911
Total revenues	<u>34,303,738</u>	<u>23,241,063</u>	<u>5,629,162</u>	<u>3,627,843</u>	<u>39,932,900</u>	<u>26,868,906</u>
Program expenses:						
General government	4,603,182	3,472,718	-	-	4,603,182	3,472,718
Public safety	11,476,002	12,122,449	-	-	11,476,002	12,122,449
Transportation	2,181,363	2,423,397	-	-	2,181,363	2,423,397
Natural & economic environment	1,054,700	904,462	-	-	1,054,700	904,462
Social services	27,715	27,316	-	-	27,715	27,316
Culture and recreation	2,666,221	2,517,520	-	-	2,666,221	2,517,520
Interest on long term debt	201,380	206,681	-	-	201,380	206,681
Surface water management	-	-	2,283,806	2,167,641	2,283,806	2,167,641
Total expenses	<u>22,210,561</u>	<u>21,674,543</u>	<u>2,283,806</u>	<u>2,167,641</u>	<u>24,494,368</u>	<u>23,842,184</u>
Changes in net position	12,093,176	1,566,520	3,345,356	1,460,202	15,438,532	3,026,722
Transfers	95,925	41,600	(95,925)	(41,600)	(0)	-
Total changes in net position	12,189,101	1,608,120	3,249,431	1,418,602	15,438,532	3,026,722
Net position - beginning	195,410,214	193,479,767	9,264,208	8,167,932	204,674,422	201,647,700
Prior period adjustments	-	322,326	-	(322,326)	-	-
Restated net position - beginning	195,410,214	193,802,093	9,264,208	7,845,606	204,674,422	201,647,700
Net position - ending	<u>\$ 207,599,315</u>	<u>\$ 195,410,214</u>	<u>\$ 12,513,639</u>	<u>\$ 9,264,208</u>	<u>\$ 220,112,954</u>	<u>\$ 204,674,422</u>

Governmental Activities Analysis

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. From 2019 to 2020, assessed valuation for average properties increased by 5.9%. Sales taxes decreased by \$24,977 over 2019 or -0.8%. Despite the impacts of the COVID-19 pandemic on the economy, certain sectors like retail sales saw an increase in activity in 2020. The economy continues modest growth in the City as we have seen an increase in retail sales, and a resurgence in sales tax generated by new construction activities in the City.

Taxes make up 46.4% of the total governmental activities revenue as compared to 67.7% in 2019. The decrease for taxes is due to increases in other revenue sources like transportation related capital grants.

The operating grants of \$1,829,667 for general government programs included the following:

- COVID-19 support through the CARES Act: \$904,421
- Liquor Board Taxes from the State of Washington: \$171,376
- Liquor Excise Tax from the State of Washington: \$140,458

- PUD Privilege Tax from Snohomish County PUD: \$120,038

The primary sources of transportation operating grants are the City's share of the State's Motor Vehicle Fuel Tax of \$382,792.

The City had capital grants for several projects including the following:

- Harbour Pointe Boulevard SW Widening project: \$292,149
- Harbour Reach Corridor: \$9,399,712
- Peace Park project: \$166,445

The City reported investment interest earned in the amount of \$127,251 as compared to \$262,779 in 2019, due to maturities of investment bonds and lower interest rates.

Governmental Functional Expenses

Total cost of services

The City's governmental activities functions were consistent from 2019 to 2020. Total cost of services increased by \$536,019, and the net cost of services decreased by \$10,431,727, due to capital grants received for transportation projects that lowered the net cost of services.

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	
	2020	Restated 2019	2020	Restated 2019
General government	\$ 4,603,182	\$ 3,438,650	\$ (368,297)	\$ 1,092,885
Public safety	11,476,002	11,983,746	9,877,645	10,622,515
Transportation	2,181,363	2,423,397	(8,399,187)	501,376
Natural & economic environment	1,054,700	1,092,492	1,054,700	959,455
Social services	27,715	-	27,715	-
Culture and recreation	2,666,221	2,529,576	1,708,598	1,151,368
Interest on long term debt	201,380	206,681	201,380	206,681
Total	<u>\$ 22,210,561</u>	<u>\$ 21,674,543</u>	<u>\$ 4,102,553</u>	<u>\$14,534,280</u>

Business-Type Activities Analysis

The City maintains a single enterprise fund for surface water activities. In this fiscal year, operating revenues were \$3,922,990 and operating expenses were \$2,321,567, resulting in an operating gain of \$1,601,423.

Revenues from charges for services increased \$376,961 or 10.6% greater in 2020 than 2019. This includes a rate increase in line with a multi-year rate increase plan that was adopted by the City Council in 2015.

Operations and maintenance costs increased \$65,362 or 3.4% above the 2019 amount. Depreciation expense increased \$46,413 or 17.0% in 2020 as compared to 2019. In this year, the Surface Water Fund transferred \$95,925 of resources to other funds. At December 31, 2020, net position totaled \$12,475,878. Of this amount, \$7,149,115, or 57.3%, is restricted for capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$11,811,318 as compared to the amount of \$9,977,928 at December 31, 2019.

The restricted amount at December 31, 2020 was \$6,029,675, relating primarily to capital improvements funded by REET revenues.

The committed amount of \$1,280,592 is primarily for a contingency reserve of \$1 million.

The assigned fund balance of \$2,525,560 is set aside for operating reserves in the General Fund in accordance with the City's Fund Balance Reserve Policy which requires an amount equal to two months of operating expenditures (16.67%) to be maintained.

The General Fund – The General Fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. The General Fund's fund balance increased by \$1,450,031 or 24.2% in 2020. In calendar year 2019, the fund balance increased \$811,867 or 15.7%.

Total revenues increased \$805,147 or 4.0% above the 2019 amount, which is largely related to federal support received in 2020 related to the COVID-19 pandemic.

Total licenses and permits were up \$117,011 or 7.7% above the 2019 amount, due to an increase in the number of commercial construction permits.

In 2020, total expenditures decreased \$607,676 or -3.1% below the 2019 amount, due to a reduction in spending related to budget concerns about the impact of the COVID-19 pandemic.

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

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

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants. Charges for Services in the Capital Projects Fund include park mitigation and street mitigation fees. Mitigation fees increased slightly from \$127,435 to \$132,970 from 2019 to 2020.

Other capital projects are financed mainly through revenue the City receives from excise taxes levied on the sale of real estate within the City and may only be used to fund capital projects. During 2020, the City recognized real estate excise tax collected in the amount of \$1,644,603 as compared to \$1,364,356 in 2019. Real estate activity improved overall in 2020, despite the on-going pandemic.

In 2020 capital outlay projects totaled \$10,547,966, while non-capital maintenance and other costs totaled \$298,800. Ending fund balance in 2020 was \$4,357,790. Capital outlay increased from 2020 primarily related to the Harbour Pointe Boulevard SW Widening and Harbour Reach Drive Corridor Extension projects and contributions to the pavement preservation project.

Debt Service Fund – This fund accounts for activity related to long term governmental obligations. In February 2017, the City issued \$7,980,000 in limited tax general obligation (LTGO) refunding bonds to partially advance refund a portion \$7,365,000 of the total outstanding LTGO Bonds for the Rosehill Community Center. The proceeds from the sale were used to call outstanding bonds in December 2019.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund revenue budget was amended upward by \$41,950, or 0.2% for increased facility maintenance revenue related to previously unanticipated maintenance and utility charges. In total, the City realized 104.2% of estimated revenues.

Total tax revenue was \$144,871 higher than the budget. Property tax revenue was \$7,816 over the final budget, sales tax revenue was \$239,676 higher than the final budget, and intergovernmental revenue was \$1,881,189 above the final budget. Most of this variance related to funding received for COVID-19 related pandemic relief funding as well as ambulance transport revenue exceeding the original budget.

With regard to the General Fund expenditure budget, it was amended upward \$289,234 or 1.5%. This was to allow for increased maintenance and utility expenses as well as increased overtime for fire protection services.

Overall, the General Fund expenditure budget was underspent by \$795,464. This was the result of holding budgeted positions vacant due to the fiscal uncertainty surrounding the economic impact

of the COVID-19 pandemic, as well as other general expenditure reductions given this budget uncertainty.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2020 was a 5.0% increase for governmental activities and a 23.4% increase for business-type activities. The overall increase was 6.0% for the City as a whole. See the notes to the financial statements for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity for the years ended December 31, 2020 and 2019.

City of Mukilteo Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Nondepreciable assets:						
Land	\$ 43,724,327	\$ 43,724,327	\$ 150,000	\$ 150,000	\$ 43,874,327	\$ 43,874,327
Right of way	10,988,766	10,980,573	53,172	53,172	11,041,938	11,033,745
Art collections	287,624	287,624	-	-	287,624	287,624
Infrastructure - streets	103,852,485	101,539,370	-	-	103,852,485	101,539,370
Construction in progress	12,832,065	4,667,645	2,502,696	507,665	15,334,761	5,175,310
Total nondepreciable assets	171,685,267	161,199,538	2,705,867	710,837	174,391,135	161,910,376
Depreciable assets:						
Buildings	18,835,353	19,344,691	-	-	18,835,353	19,344,691
Other improvements	2,851,462	3,493,819	3,253,754	3,470,567	6,105,216	6,964,386
Machinery and equipment	3,080,174	3,266,836	1,189,493	1,292,876	4,269,668	4,559,711
Infrastructure	3,331,257	3,520,995	-	-	3,331,257	3,520,995
Total depreciable assets	28,098,246	29,626,340	4,443,248	4,763,443	32,541,494	34,389,783
Book value - all assets	\$ 199,783,513	\$ 190,825,879	\$ 7,149,115	\$ 5,474,280	\$ 206,932,629	\$ 196,300,158

At December 31, 2020, the depreciable capital assets for governmental activities were 51.3% depreciated, up from 48.8% as of December 31, 2019, reflecting the additional depreciation recognized in 2020.

Governmental Activities

The increase to the construction in progress consisted primarily of:

- Harbour Reach Drive Corridor Extension project
- Harbour Pointe Boulevard SW Widening project
- Peace Park project
- Pavement Preservation projects

Business Activities

The increase to the construction in progress consisted primarily of:

- 61st Place Retaining Wall project
- Decant Facility Design project

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

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

Long-Term Debt

The following table reports outstanding long-term obligations at both December 31, 2020 and 2019.

City of Mukilteo Outstanding Obligations

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ 7,035,000	\$ 7,730,000	\$ -	\$ -	\$ 7,035,000	\$ 7,730,000
Compensated absences	1,824,625	1,656,657	155,970	127,241	1,980,595	1,783,897
Pension obligation	1,229,630	1,250,979	290,572	295,540	1,520,202	1,546,519
Other post-employment benefits	392,132	360,608	-	-	392,132	360,608
Total	<u>\$ 10,481,387</u>	<u>\$ 10,998,244</u>	<u>\$ 446,542</u>	<u>\$ 422,781</u>	<u>\$ 10,927,929</u>	<u>\$ 11,421,024</u>

The general obligation bonds are reported gross (unamortized bond premium is not included). Annual principal and interest payments are made from funding provided by the Capital Projects Fund.

Additional information on long-term liabilities can be found in notes 6, 7, 10, and 12 following the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In August of 2019, Standard & Poor's conducted a rating check-in and downgraded the City's long-term credit rating from AAA with a negative outlook (from October of 2015) to AA with a stable outlook.

The rating action was based in part on the City experiencing what Standard & Poor's referred to as a "period of political acrimony" including the "uncertainty" pending the outcome of a ballot measure giving voters the opportunity to switch the form of government from Mayor-Council to Council-Manager. At the time the rating check was conducted, the City Administrator position was being filled by an interim contractor. The ballot measure failed, and the Mayor-Council form

of government was retained. The City Administrator position was filled permanently in April of 2020.

The outlook change from negative to stable was based in part on the City's progress in "improving financial management and maintained routine governance activities". Lack of findings in the 2017 audit was also referenced as a positive factor.

Standard & Poor's identified our credit strengths below as the basis for our bond rating:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with good financial policies and practices under our financials management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total government fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in 2018 of 21% of operating expenditures;
- Very strong liquidity, with total governmental available cash of 44% of total governmental fund expenditures and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 30.2% of total governmental fund revenue, as well as rapid amortization, with all debt scheduled to be retired in 10 years;
- Adequate institutional framework score.

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

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

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

- Support local businesses to ensure a **healthy economy**

The City's 2021 budget was the seventh budget presented by Mayor Jennifer Gregerson, who is in her second term in office. During her first term, Mayor Gregerson kept her commitment to maintain high service delivery levels without increases in taxes and fees. For the 2019 budget year, the Mayor committed to propose a budget that was not just balanced, but also sustainable. The 2019 budget included an increase in property taxes for the first time since 2013 and presented a realistic picture of the costs to deliver the fundamentals of our operation: public safety, infrastructure, development services, and parks and recreation. The 2020 budget focused on the priorities of Fiscal Health, Long-Range Financial Planning, Safe Strong Neighborhoods, and a Beautiful Community. The 2021 budget was adopted on December 7, 2020 and continues the Mayor's commitment to a balanced budget. The 2021 budget also focused on maintaining Core City Services as the City reallocated funding to continue to provide these services to residents even in the midst of budget uncertainty given the on-going pandemic. The 2021 budget also prioritizes funding for Safe, Strong Neighborhoods as well as maintaining the Fiscal Health of the City.

The City began 2020 in good economic shape with high home values, low unemployment, and sales tax revenues trending higher than 2019.

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary restrictive measures to slow the spread of the virus were ordered. The Mayor issued an Emergency Proclamation in response to the COVID-19 public health crisis on March 10, 2020. The situation evolved rapidly and resulted in the closures of City facilities and parks. The primary anticipated fiscal impacts for 2020 are reduced revenues from sales tax, fuel tax, other sales tax supported State shared revenues, reduced revenues from community center rental fees, and parking revenues. In addition, the City has incurred unbudgeted expenditures for personnel costs to respond to the emergency as well as the purchase of personal protective equipment, cleaning supplies and telework equipment. The City continues to spend to keep its infrastructure in good shape and is moving forward with capital projects as budgeted.

The length of time these restrictive measures will be in place, and the full extent of the financial impact on the City of Mukilteo is unknown at the time this report was submitted. Please see Note 16 for more information.

2021 Budget Overview

Adopted budgeted revenues and transfers in for all funds total \$41.1 million. Adopted budgeted expenditures and transfers out total \$43.6 million.

Exceeding the two-month minimum fund balance set by policy, the adopted budget includes an estimated ending balance in the General Fund of \$4.2 million which equals 27.6% of 2021 General Fund expenditures and transfers out.

Due to the ongoing response to the COVID-19 public health emergency, there may be significant variances in some areas between the adopted budget and actual revenues and expenditures. Please see Note 16 for more information.

Requests for Information

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Finance Director: City of Mukilteo, 11930 Cyrus Way, Mukilteo, WA 98275, 425-263-8030.

**Statement of Net Position
December 31, 2020**

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 10,347,801	\$ 4,811,614	\$ 15,159,416
Receivables (net of allowances):			
Taxes	1,462,906	-	1,462,906
Customer accounts	814,153	613,004	1,427,157
Grants	3,194,381	728,722	3,923,103
Internal balances	(37,761)	37,761	-
Prepays	185,472	8,674	194,145
Total current assets	<u>15,966,952</u>	<u>6,199,775</u>	<u>22,166,727</u>
Noncurrent assets:			
Net pension asset	3,440,469	-	3,440,469
Investment in joint venture	918,285	-	918,285
Capital assets not being depreciated:			
Land	43,724,327	150,000	43,874,327
Right of way easements	10,988,766	53,172	11,041,938
Art collections	287,624	-	287,624
Infrastructure - streets	103,852,485	-	103,852,485
Construction in progress	12,832,065	2,502,696	15,334,761
Capital assets, net of accumulated depreciation:			
Buildings	18,835,353	-	18,835,353
Other improvements	2,851,462	3,253,754	6,105,216
Machinery and equipment	3,080,174	1,189,493	4,269,668
Infrastructure	3,331,257	-	3,331,257
Total noncurrent assets	<u>204,142,268</u>	<u>7,149,115</u>	<u>211,291,383</u>
Total assets	<u>220,109,220</u>	<u>13,348,890</u>	<u>233,458,110</u>
Deferred outflows of resources:			
Other post-employment benefits	3,550	-	3,550
Pension obligations	1,202,884	104,260	1,307,144
Total deferred outflows of resources	<u>1,206,435</u>	<u>104,260</u>	<u>1,310,695</u>
Liabilities			
Current liabilities:			
Accounts payable	1,296,558	321,927	1,618,485
Accrued wages	532,145	50,730	582,875
Deposits payable	160,036	-	160,036
Unearned revenue	126,950	-	126,950
Accrued interest payable	14,070	-	14,070
Compensated absences - current	139,114	11,891	151,005
Bonds - current	710,000	-	710,000
Total current liabilities	<u>2,978,873</u>	<u>384,548</u>	<u>3,363,421</u>
Noncurrent liabilities:			
Compensated absences	1,685,512	144,078	1,829,590
Net pension liabilities	1,229,630	290,572	1,520,202
Other post-employment liabilities	392,132	-	392,132
Bonds	6,325,000	-	6,325,000
Total noncurrent liabilities	<u>9,632,273</u>	<u>434,650</u>	<u>10,066,924</u>
Total liabilities	<u>12,611,147</u>	<u>819,198</u>	<u>13,430,345</u>
Deferred Inflows of Resources			
Deferred revenues	-	13,304	13,304
Pension obligations	1,105,192	107,009	1,212,201
Total deferred inflows of resources	<u>1,105,192</u>	<u>120,313</u>	<u>1,225,505</u>
Net Position			
Net investment in capital assets	192,710,752	7,149,115	199,859,867
Restricted for:			
Capital	5,285,715	-	5,285,715
Other purposes	2,024,552	-	2,024,552
Unrestricted	7,578,296	5,364,524	12,942,820
Total net position	<u>\$ 207,599,316</u>	<u>\$ 12,513,639</u>	<u>\$ 220,112,954</u>

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

**Statement of Activities
For the Year Ended December 31, 2020**

					Net (Expenses) Revenue and Changes in Net Position		
		Program Revenue			Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Net (Expense) Revenue
Primary government:							
Governmental activities:							
General government	\$ 4,603,182	\$ 3,141,811	\$ 1,829,667	\$ -	\$ 368,297	\$ -	\$ 368,297
Public safety	11,476,002	645,441	952,917	-	(9,877,645)	-	(9,877,645)
Transportation	2,181,363	332,450	499,915	9,748,185	8,399,187	-	8,399,187
Natural & economic environment	1,054,700	-	-	-	(1,054,700)	-	(1,054,700)
Social services	27,715	-	-	-	(27,715)	-	(27,715)
Culture and recreation	2,666,221	780,055	11,122	166,445	(1,708,598)	-	(1,708,598)
Interest on long-term debt	201,380	-	-	-	(201,380)	-	(201,380)
Total governmental activities	22,210,561	4,899,756	3,293,621	9,914,631	(4,102,553)	-	(4,102,553)
Business-type activities:							
Surface water	2,283,806	3,917,181	5,810	1,706,739	-	3,345,923	3,345,923
Total business-type activities	2,283,806	3,917,181	5,810	1,706,739	-	3,345,923	3,345,923
Total primary government	\$ 24,494,368	\$ 8,816,937	\$ 3,299,431	\$ 11,621,370	(4,102,553)	3,345,923	(756,630)
General revenues:							
Taxes:							
Property taxes					7,579,452	-	7,579,452
Sales taxes					3,432,865	-	3,432,865
Utility taxes					2,548,822	-	2,548,822
Excise taxes					1,761,867	-	1,761,867
Other taxes					643,254	-	643,254
Interest and investment earnings					127,251	-	127,251
Gain on sale of capital assets					10,332	-	10,332
Miscellaneous revenue					91,886	(568)	91,318
Transfers					95,925	(95,925)	(0)
Total general revenues and transfers					16,291,654	(96,492)	16,195,161
Change in net position					12,189,101	3,249,431	15,438,532
Net position - beginning					195,410,215	9,264,208	204,674,423
Net position - ending					\$ 207,599,316	\$ 12,513,639	\$ 220,112,954

**Balance Sheet
Governmental Funds
December 31, 2020**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 6,246,147	\$ 2,116,466	\$ 4,821	\$ 8,367,435
Prepaid expenses	164,200	1,015	-	165,215
Receivables (net of allowance):				
Taxes	1,307,356	155,550	-	1,462,906
Customers	768,304	45,849	-	814,153
Grants	211,146	2,960,993	-	3,172,139
Total assets	<u>\$ 8,697,152</u>	<u>\$ 5,279,873</u>	<u>\$ 4,821</u>	<u>\$ 13,981,847</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 326,674	\$ 922,083	\$ -	\$ 1,248,757
Wages payable	522,069	-	-	522,069
Unearned revenue	126,950	-	-	126,950
Deposits & retainage payable	160,036	-	-	160,036
Total liabilities	<u>1,135,729</u>	<u>922,083</u>	<u>-</u>	<u>2,057,812</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - receivables	112,717	-	-	112,717
FUND BALANCES				
Nonspendable for:				
General government	148,816	-	-	148,816
Restricted for:				
Public Safety	420,969	-	-	420,969
Transportation	927,925	4,091,884	-	5,019,809
Culture and recreation	71,000	265,906	-	336,906
Natural & economic development	247,170	-	-	247,170
General obligation debt	-	-	4,821	4,821
Committed for:				
General government	1,254,800	-	-	1,254,800
Public Safety	24,065	-	-	24,065
Culture and recreation	1,728	-	-	1,728
Assigned for:				
General government	2,525,560	-	-	2,525,560
Unassigned	1,826,674	-	-	1,826,674
Total fund balances	<u>7,448,706</u>	<u>4,357,790</u>	<u>4,821</u>	<u>11,811,318</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,697,152</u>	<u>\$ 5,279,873</u>	<u>\$ 4,821</u>	<u>\$ 13,981,847</u>

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2020

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

Fund balances of governmental funds:		\$ 11,811,318
Capital assets are not financial resources, and therefore not reported in the fund financial statements		
Capital assets net of depreciation		199,783,513
Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Net pension assets	\$ 3,440,469	
Investment in joint venture	918,285	
		4,358,754
Deferred outflows of resources for pensions and other postemployment benefit activity are not available to pay for current period expenditures and, therefore are not reported in governmental funds		1,206,435
Deferred inflows related to unearned revenue that are not available in the current period and, therefore, are not reported in the funds but are revenue for government wide reporting		112,717
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds		(10,495,457)
Deferred inflows in governmental funds is susceptible to full accrual and therefore not reported in the Statement of Activities. Other expenses are susceptible to full accrual and are reported in the Statement of Activities but not in the governmental funds.		(1,105,192)
Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. These assets and liabilities of certain internal service funds are included in the statement of net position.		1,927,227
Net position		\$ 207,599,316

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

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2020**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Revenues				
Taxes	\$ 14,336,633	\$ 1,644,603	\$ -	\$ 15,981,236
Licenses and permits	1,646,099	-	-	1,646,099
Intergovernmental revenues	3,087,239	9,914,631	-	13,001,870
Charges for services	839,229	352,749	-	1,191,978
Fees and penalties	127,414	-	-	127,414
Miscellaneous	970,240	12,618	-	982,858
Total revenues	21,006,853	11,924,602	-	32,931,455
Expenditures				
Current:				
General government	4,824,439	-	-	4,824,439
Public safety	10,609,773	-	-	10,609,773
Transportation	1,168,653	298,800	-	1,467,453
Natural & economic environment	1,008,962	-	-	1,008,962
Social services	27,715	-	-	27,715
Culture and recreation	1,564,922	-	-	1,564,922
Capital outlay:				
Transportation	-	10,379,564	-	10,379,564
Culture and recreation	-	168,402	-	168,402
Debt service:				
Principal	-	-	695,000	695,000
Interest and other charges	-	-	187,310	187,310
Total expenditures	19,204,463	10,846,766	882,310	30,933,539
Excess (deficiency) of revenues over (under) expenditures	1,802,390	1,077,836	(882,310)	1,997,916
Other Financing Sources (Uses)				
Transfers in	(87,992)	301,133	880,345	1,093,487
Transfers out	(264,367)	(993,645)	-	(1,258,012)
Total other financing sources and uses	(352,358)	(692,512)	880,345	(164,525)
Net change in fund balances	1,450,031	385,324	(1,965)	1,833,390
Fund balances - beginning	5,998,675	3,972,467	6,786	9,977,928
Fund balances - ending	\$ 7,448,706	\$ 4,357,790	\$ 4,821	\$ 11,811,318

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2020**

Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 1,833,390

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 10,541,140	
Depreciation expense	(1,482,160)	
	9,058,980	9,058,980

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

Decreases in deferred inflows	(57,556)	
Increase in intergovernmental revenue-pension special funding situation	207,420	
Increase in joint venture equity interest	46,594	
	196,458	196,458

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Decreases in governmental fund bonds payable		695,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Increases in governmental fund compensated absences payable	(158,631)	
Increases in governmental fund interest payable	(14,070)	
Increase in internal balances	(37,761)	
Decrease in pension expense	538,316	
	327,853	327,853

The net revenue of certain activities of internal service funds is reported on the statement of activities

77,419

Change in net position		<u><u>\$ 12,189,101</u></u>
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The notes to the financial statements are an integral part of this statement.

**Statement of Net Position
Proprietary Funds
December 31, 2020**

	<u>Enterprise Fund</u>	
	<u>Surface Water Fund</u>	<u>Internal Service Funds</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,811,614	\$ 1,980,367
Receivables (net of allowances):		
Customers	613,004	-
Grants receivable	728,722	22,242
Prepaid expenses	8,674	20,257
Total current assets	<u>6,162,014</u>	<u>2,022,866</u>
Noncurrent assets:		
Capital assets not being depreciated		
Land	150,000	-
Right of way easements	53,172	-
Construction in progress	2,502,696	100
Capital assets net of accumulated depreciation:		
Buildings and structures	-	6,317
Other improvements	3,253,754	256,900
Machinery and equipment	1,189,493	2,724,814
Total noncurrent assets	<u>7,149,115</u>	<u>2,988,130</u>
Total assets	<u>13,311,129</u>	<u>5,010,997</u>
Deferred Outflows of Resources		
Pension obligations	<u>104,260</u>	<u>24,017</u>
Total deferred outflows	<u>104,260</u>	<u>24,017</u>
Liabilities		
Current liabilities:		
Accounts payable	321,927	47,801
Wages payable	50,730	10,077
Compensated absences - current portion	11,891	1,704
Total current liabilities	<u>384,548</u>	<u>59,582</u>
Noncurrent liabilities:		
Compensated absences	144,078	20,652
Net pension liabilities	290,572	67,255
Total noncurrent liabilities	<u>434,650</u>	<u>87,907</u>
Total liabilities	<u>819,198</u>	<u>147,489</u>
Deferred Inflows of Resources		
Deferred revenues	13,304	-
Pension obligations	<u>107,009</u>	<u>25,565</u>
Total deferred inflows	<u>120,313</u>	<u>25,565</u>
Net Position		
Investment in capital assets	7,149,115	2,988,130
Unrestricted	5,326,762	1,873,829
Total net position	<u>\$ 12,475,878</u>	<u>\$ 4,861,959</u>

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

**Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2020**

	<u>Enterprise Fund</u>	
	<u>Surface Water Fund</u>	<u>Internal Service Funds</u>
Operating Revenues		
Intergovernmental revenues	\$ 5,810	\$ 47,288
Charges for services	3,917,181	1,270,434
Total operating revenues	<u>3,922,990</u>	<u>1,317,722</u>
Operating Expenses		
Depreciation	320,197	496,762
Salaries and wages	940,738	199,690
Personnel benefits	305,246	84,993
Supplies	71,296	48,917
Services	684,092	700,832
Total operating expenses	<u>2,321,567</u>	<u>1,531,194</u>
Operating income (loss)	<u>1,601,423</u>	<u>(213,472)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental capital grants	1,706,739	-
Interest revenue	-	10,109
Miscellaneous revenue	(568)	-
Gain (loss) on disposal of capital assets	-	10,332
Donations and contributions	-	10,000
Total nonoperating revenues (expenses)	<u>1,706,172</u>	<u>30,441</u>
Income (loss) before transfers	3,307,595	(183,031)
Transfers out	(95,925)	-
Transfers in	<u>-</u>	<u>260,450</u>
Change in net position	3,211,670	77,419
Total Net position - beginning	<u>9,264,208</u>	<u>4,784,540</u>
Total Net position - ending	<u>\$ 12,475,878</u>	<u>\$ 4,861,959</u>
Adjustment to reflect the consolidation of internal service funds related to enterprise funds	37,761	
Net position of business-type activities	<u>\$ 12,513,639</u>	

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

**Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2020**

	Enterprise Funds	
	Surface Water Fund	Internal Service Funds
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 3,845,392	\$ 1,327,458
Cash received from grantor	5,810	25,045
Cash payments to employees and retirees	(1,312,933)	(297,120)
Cash payments to suppliers	(489,574)	(844,018)
Net cash provided (used) by operating activities	<u>2,048,695</u>	<u>211,365</u>
Cash Flows From Noncapital Financing Activities		
Non-operating miscellaneous revenue	-	20,402
Operating subsidies and transfers from other funds	-	260,450
Operating subsidies and transfers to other funds	(95,925)	-
Net cash provided (used) by noncapital financing activities	<u>(95,925)</u>	<u>280,852</u>
Cash Flows From Capital Financing Activities		
Proceeds from capital grants	1,017,081	(70)
Acquisition and construction of capital assets	(1,995,030)	(395,415)
Net cash provided (used) by capital financing activities	<u>(977,949)</u>	<u>(395,486)</u>
Cash Flows From Investing Activities		
Investment maturity	-	1,000,000
Investment sales and income	(568)	9,135
Net cash provided (used) by investing activities	<u>(568)</u>	<u>1,009,135</u>
Net increase (decrease) in cash and cash equivalents	974,254	1,105,866
Cash and cash equivalents, January 1	3,837,361	874,501
Cash and cash equivalents, December 31	<u>\$ 4,811,614</u>	<u>\$ 1,980,366</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,601,423	\$ (213,472)
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:		
Depreciation	320,197	496,762
(Increase) decrease in customer receivables	(85,092)	57,024
(Increase) decrease in grantor receivables	-	(22,242)
(Increase) decrease in deferred pension outflows	(10,096)	(2,238)
(Increase) decrease in prepaid expenses	(386)	(3,824)
Increase (decrease) in accounts payable and deposits	266,199	(90,445)
Increase (decrease) in employee and benefit liabilities	3,652	240
Increase (decrease) in compensated absences	28,729	9,337
Increase (decrease) in pension obligation	(4,968)	(1,101)
Increase (decrease) in deferred inflows	13,304	-
Increase (decrease) in pension inflows	(84,267)	(18,676)
Total adjustments	<u>447,272</u>	<u>424,837</u>
Net cash provided (used) by operating activities	<u>\$ 2,048,695</u>	<u>\$ 211,365</u>
Non-cash activities:		
Depreciation of capital assets	320,197	496,762
Total non-cash activities	<u>\$ 320,197</u>	<u>\$ 496,762</u>

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

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2020

	Custodial Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 32,705
Receivables (net of allowances):	
Taxes receivable	622
Prepaid tax distributions	56
Total assets	<u>33,383</u>
Liabilities	
Current liabilities:	
Due to other governments	19,848
Total liabilities	<u>19,848</u>
Net Position	
Restricted for:	
Individuals, organizations, and other governments	13,535
Total net position	<u>\$ 13,535</u>

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2020

	Custodial Fund
Additions	
Tax collections for other governments	\$ 3,309
Total additions	<u>3,309</u>
Deductions	
Payment of taxes to other governments	<u>2,488</u>
Total operating expenses	<u>2,488</u>
Net increase (decrease) in fiduciary net position	<u>821</u>
Net position - beginning	<u>12,715</u>
Net position - ending	<u><u>\$ 13,535</u></u>

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

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting entity

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

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

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following enterprise fund:

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

Additionally, the City reports the following fund types:

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

- The **Equipment Replacement Fund** finances the replacement, pursuant to a detailed equipment replacement schedule, of all capital equipment owned by the City. Funds are charged an annual fee set aside to replace capital equipment in the future.
- The **Facilities Maintenance Fund** charges funds for expenditures related to the general operations and maintenance of City facilities.

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

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

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

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. There were no such balances in the current year.

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

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

C. Measurement focus and basis of accounting

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

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

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

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

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

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

D. Budgetary information

1. Scope of Budget

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

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

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

2. Amending the Budget

The Mayor and City Administrator are authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total appropriations of a fund, or that affect the number of

authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than a simple majority after holding public hearings in accordance with state laws governing the budget amendment process.

3. Excess of Expenditures over Appropriations

There are no material violations of finance related to legal or contractual provisions in the General Fund or Capital Projects Fund.

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

1. Cash and Cash Equivalents (Note 3)

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

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

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

2. Investments (Note 3)

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

3. Receivables (Note 4)

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

4. Inventory and Prepaid Items

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

5. Capital Assets and Depreciation (Note 5)

Capital Assets are defined as land and artwork or historic collections of any value; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture;

equipment, machinery, vehicles, and tools, with a value of \$5,000 or more for non-infrastructure or \$10,000 or more per item for infrastructure, and having a useful life exceeding one year from the date of acquisition. All non-infrastructure assets with a cost of \$5,000 or more, and infrastructure additions where individual items cost \$10,000 or more, will be capitalized.

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

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

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

6. Unearned Revenue

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

7. Compensated Absences

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

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

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

8. Pensions (Note 6)

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

9. Other post-employment benefits (OPEB) (Note 7)

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

10. Long-Term Debt (Note 10)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing uses.

11. Deferred Inflows and Outflows of Resources

Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available. See Note 1, section E 8 above, as well as Note 6, for deferred inflows and outflows of resources related to pension activities. See Note 1, section E9 above, as well as Note 7, for deferred outflows of resources related to OPEB activities.

12. Restricted Assets and Liabilities

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

13. Fund Balances

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

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

General Fund:

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

General Fund Operating Reserves: An amount equal to two months of General fund budgeted operating expenditures, to provide for adequate cash flow, budget contingencies, and insurance reserves.

Technology Replacement Reserves: For the replacement of entity-wide computer hardware, software, or telephone equipment identified in the City's Technology Replacement listing. The required level of reserve is equivalent to each year's scheduled replacement costs.

Hotel/Motel Lodging Tax Reserves: The City maintains a Hotel/Motel Lodging Tax reserve in an amount equal to six months revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax is reported as restricted, as allowable expenditures are prescribed by state law.

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

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

Note 3 - Deposits and Investments

Deposits

Cash on hand at December 31, 2020 was \$2,600. The carrying amount of the City's deposits in the bank was \$15,189,521, and \$32,705 of that amount was custodial fund deposit. Cash and cash equivalents on the Statement of Net Position include the non-custodial portion of bank deposits, \$15,156,816, and petty cash of \$2,600, for a total of \$15,159,416.

Custodial Credit Risk

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

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

At December 31, 2020, all of the City's deposits with financial institutions were insured or collateralized. The City's deposits in financial institutions are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

Interest Rate Risk

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

At December 31, 2020 the City had the following investments:

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less than 1 year	1-5 years
Snohomish County Local Investment Pool	4,914,961	4,914,961	-
State of Washington Local Government Investment Pool	1,001,735	1,001,735	-
	<u>\$ 5,916,696</u>	<u>\$ 5,916,696</u>	<u>\$ -</u>

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

Credit Risk

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

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

Concentration of Credit Risk

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

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

Investments in Local Government Investment Pool (LGIP)

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

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

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tr.wa.gov>.

Investments in Snohomish County Investment Pool

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

Investments Measured at Fair Value

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

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

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

As of December 31, 2020, the City had the following investments measured at fair value:

<u>Investments by fair value level</u>	<u>Totals as of 12/31/2020</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Snohomish County Investment Pool	\$ 4,914,961	\$ -	\$ 4,914,961	\$ -
Total investments measured at fair value	4,914,961	\$ -	\$ 4,914,961	\$ -
<u>Investments measured at amortized cost</u>				
Snohomish County Local Investment Pool	1,001,735			
Total investments measured at amortized cost	1,001,735			
Total Investments in Statement of Net Position	\$ 5,916,696			

Note 4 - Property Taxes

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

Property Tax Calendar

January 1	Tax is 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 percent of market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

The City may levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2020 was \$1.038 per \$1,000 on an assessed valuation of \$5,444,416,654 for a total regular levy of \$5,652,546. The City's permanent Emergency Medical Services (EMS) levy for 2020 was \$0.355 per \$1,000 on an assessed valuation of \$5,444,416,654 for a total EMS levy of \$1,933,704, resulting in a total levy rate of \$1.393 and total levy of \$7,586,250. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

Note 5 – Capital Assets

Minor gains or losses occasionally occur on disposal of capital assets. When such minor gains or losses occur, the City reports them as miscellaneous revenues if they are gains or rolled into the function in government-wide statements if they are losses.

A. Capital Assets – Governmental Activities

Capital assets activity for the year ended December 31, 2020 was as follows:

	Balance 1/1/2020	Increases	Decreases	Balance 12/31/2020
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 43,724,327	\$ -	\$ -	\$ 43,724,327
Right of way	10,980,573	8,194	-	10,988,766
Art	287,624	-	-	287,624
Infrastructure - streets	101,539,370	2,313,115	-	103,852,485
Construction in progress	4,667,645	10,699,969	(2,535,549)	12,832,065
Total capital assets, not being depreciated	161,199,538	13,021,278	(2,535,549)	171,685,267
Capital assets, being depreciated				
Buildings	27,942,822	-	-	27,942,822
Other improvements	10,013,854	45,896	-	10,059,751
Machinery and equipment	10,295,868	404,930	(56,608)	10,644,190
Infrastructure	12,810,968	-	-	12,810,968
Total capital assets being depreciated	61,063,513	450,827	(56,608)	61,457,731
Less accumulated depreciation for				
Buildings	(8,598,131)	(509,338)	-	(9,107,470)
Other improvements	(6,520,036)	(688,253)	-	(7,208,289)
Machinery and equipment	(7,029,033)	(591,593)	56,608	(7,564,017)
Infrastructure	(9,289,971)	(189,738)	-	(9,479,708)
Total accumulated depreciation	(31,437,171)	(1,978,922)	56,608	(33,359,484)
Total capital assets, being depreciated, net	29,626,342	(1,528,095)	-	28,098,247
Governmental activities, capital assets, net	\$ 190,825,880	\$ 11,493,183	\$ (2,535,549)	\$ 199,783,514

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

Governmental activities:	
General government	\$ 386,708
Public safety	495,641
Transportation	259,905
Natural and economic environment	21,217
Culture and recreation	815,451
Total depreciation - governmental activities	<u>\$ 1,978,922</u>

B. Capital Assets – Business-Type Activities

Business-type activities	Balance 1/1/2020	Increases	Decreases	Balance 12/31/2020
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	53,172	-	-	53,172
Construction in progress	507,666	1,995,030	-	2,502,696
Total capital assets, not being depreciated	710,837	1,995,030	-	2,705,867
Capital assets, being depreciated				
Other improvements	7,908,982	-	-	7,908,982
Machinery and equipment	1,468,955	-	-	1,468,955
Total capital assets being depreciated	9,377,937	-	-	9,377,937
Less accumulated depreciation for				
Buildings	-	-	-	-
Other improvements	(4,438,414)	(216,814)	-	(4,655,228)
Machinery and equipment	(176,078)	(103,383)	-	(279,461)
Infrastructure	-	-	-	-
Total accumulated depreciation	(4,614,493)	(320,197)	-	(4,934,689)
Total capital assets, being depreciated, net	4,763,445	(320,197)	-	4,443,248
Governemetal activities, capital assets, net	\$ 5,474,281	\$ 1,674,833	\$ -	\$ 7,149,115

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

Business-type activities:

Surface Water	\$ 320,197
Total depreciation - business-type activities	<u>\$ 320,197</u>

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ (1,520,202)
Pension assets	\$ 3,440,469
Deferred outflows of resources	\$ 1,307,144
Deferred inflows of resources	\$ (1,212,201)
Pension expense/expenditures	\$ 199,360

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes

financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

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

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 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	

Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%
September – December 2020		
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%

* For employees participating in JBM, the contribution rate was 19.75%.

The City's actual PERS plan contributions were \$216,505 to PERS Plan 1 and \$357,764 to PERS Plan 2/3 for the year ended December 31, 2020.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 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 3.44% in 2020.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January – December 2020		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	8.59%
Administrative Fee	0.18%	
Total	8.77%	8.59%

The City's actual contributions to the plan were \$318,753 for the year ended December 31, 2020.

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, 2020, the state contributed \$76,297,643 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$207,420.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. 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 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, 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-2020 mortality rates, which vary by member status, as the base table. The OSA applied age 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 Actuaries, to project mortality rates for every 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.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

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 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2020, 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 calculated using the discount rate of 7.4 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 1,294,069	\$ 1,033,142	\$ 805,587
PERS 2/3	3,060,617	487,060	(1,607,561)
LEOFF 1	(47,129)	(57,902)	(67,222)
LEOFF 2	(66,965)	(3,382,567)	(6,097,385)

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

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, 2020, the City reported a total pension liability of \$1,520,202 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ (1,033,142)
PERS 2/3	(487,060)
LEOFF 1	57,902
LEOFF 2	3,382,567

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (57,902)	\$ (3,382,567)
State's proportionate share of the net pension asset associated with the employer	(391,646)	(2,162,896)
TOTAL	\$ (449,547)	\$ (5,545,463)

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.030327%	0.029263%	-0.001064%
PERS 2/3	0.039156%	0.038083%	-0.001073%
LEOFF 1	0.003001%	0.003066%	0.000065%
LEOFF 2	0.166118%	0.165824%	-0.000294%

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 the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2020, 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.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the City recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (2,705)
PERS 2/3	50,771
LEOFF 1	(4,127)
LEOFF 2	155,422
TOTAL	\$199,360

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, 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
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (5,752)
Contributions subsequent to the measurement date	\$ 109,591	\$
TOTAL	\$ 109,591	\$ (5,752)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 174,360	\$ (61,040)
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (24,736)
Changes of assumptions	\$ 6,937	\$ (332,704)
Changes in proportion and differences between contributions and proportionate share of contributions	\$75,407	\$ (130,287)
Contributions subsequent to the measurement date	\$ 179,935	\$
TOTAL	\$ 436,639	\$ (548,767)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (606)
TOTAL	\$	\$ (606)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 468,034	\$ (59,993)
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (37,702)
Changes of assumptions	\$ 4,900	\$ (523,771)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 130,984	\$ (35,610)
Contributions subsequent to the measurement date	\$ 156,996	\$
TOTAL	\$ 760,914	\$ (657,076)

ALL PENSION PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 642,394	\$ (121,033)
Net difference between projected and actual investment earnings on pension plan investments	\$	\$ (68,795)
Changes of assumptions	\$ 11,837	\$ (856,475)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 206,391	\$ (165,897)
Contributions subsequent to the measurement date	\$ 446,521	\$
TOTAL	\$ 1,307,144	\$ (1,212,201)

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, 2021. 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
2021	\$ (26,103)
2022	\$ (821)
2023	\$ 7,965
2024	\$ 13,207
2025	\$ 0
Thereafter	\$ 0
Total	\$ (5,752)

Year ended December 31:	PERS 2/3
2021	\$ (210,817)
2022	\$ (57,025)
2023	\$ (59)

2024	\$ 39,128
2025	\$ (34,946)
Thereafter	\$ (28,344)
Total	\$ (292,063)

Year ended December 31:	LEOFF 1
2021	\$ (2,162)
2022	\$ (113)
2023	\$ 615
2024	\$ 1,054
2025	\$ 0
Thereafter	\$ (606)
Total	\$ (5,752)

Year ended December 31:	LEOFF 2
2021	\$ (233,955)
2022	\$ (21,339)
2023	\$ 62,192
2024	\$ 125,304
2025	\$ (10,606)
Thereafter	\$ 25,247
Total	\$ (53,157)

Note 7 - Defined Benefit Other Postemployment and Deferred Compensation Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 392,132
OPEB assets	\$
Deferred outflows of resources	\$ 3,550
Deferred inflows of resources	\$
OPEB expenses / expenditures	\$ 34,001

OPEB Plan Description

- The LEOFF 1 OPEB plan is administered by the City as a single-employer defined benefit plan and is not administered through a qualifying trust.
- The plan is operated in accordance with the Revised Code of Washington (RCW) 41.26. The City provides lifetime medical care for one law enforcement officer employed prior to October 1, 1977. Under this requirement, the City provides medical, dental, long-term care insurance and reimbursement for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer or pension plan, and any other similar source. Medical insurance for the retiree is provided by the City's medical insurance program specified under the Law Enforcement Officer's Collective Bargaining

Agreement. Under authorization of the LEOFF 1 Disability Board, direct payment may be made for some retiree medical expenses not covered by standard benefit plan provisions. When the member turned 65, he enrolled in Medicare Part A and B, and the City reimburses the member for his Part B premium. The City provides health coverage for the LEOFF 1 retiree through a Medicare Advantage (Medicare Part C) plan administered by Premiera and their LEOFF Health and Welfare Trust. The City also reimburses the retiree for a Medicare Part D (drug) plan administered by Aetna. In addition, the City reimburses the retiree the necessary usual and customary medical (out of pocket) expenses in excess of those covered by the applicable medical plan, including Part D monthly premiums. Dental benefits are covered too. The City also purchased a long-term care insurance plan from Unum Life Insurance Company. The retiree does not contribute towards the cost of his medical care.

- c. Employees covered by benefit terms at December 31, 2020 include one inactive employee. There are zero inactive employees entitled to benefits that are not currently receiving those benefits and there are zero active employees.
- d. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
- e. During the year ended December 31, 2020, the City paid \$7,093 in plan benefits as they became due.

Assumptions and Other Inputs

The following significant assumptions were used in calculating the alternative measurement valuation for the OPEB plan for the plan year ended June 30, 2019:

Assumptions	
<i>Discount rate</i>	
Beginning July 01, 2018	3.87%
Ending June 30, 2019	3.50%
<i>Healthcare trend rates</i>	
Medical costs	Initial rate is about 6%, trends down to about 5% in 2020's.
Long-term care	4.50%
Medicare Part B premiums	Approximately 5%, varies by year
<i>Mortality rates (assumption: 100% male population)</i>	
Base mortality table	RP-2000 Mortality Table
Age setback	+1 year healthy/-2 years Disabled/ Blended 50%/50% Healthy/Disabled
Mortality improvements	100% Scale BB
Projection period	Generational
<i>Medicare participation rate</i>	100%

The discount rate source is the Bond Buyer General Obligation 20-Bond Municipal Index. Medical and long-term care costs were projected from June 30, 2018 to the measurement date of June 30, 2019 using the healthcare trend rates detailed in the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report, published by the Washington's Office of the State Actuary. A copy of the report can be found online at: <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>. At the end of 2020 the member age was 81.

Changes in the Total OPEB Liability

LEOFF 1 OPEB Plan

Total OPEB liability at 01/01/2020	\$ 360,608
Service cost	\$ 0
Interest	\$ 12,141
Changes of benefit terms	\$ 0
Changes in experience data & assumptions	\$ 21,860
Benefit payments	\$ (2,477)
Other changes	\$ 0
Total OPEB liability at 12/31/2020	\$ 392,132

Since the alternative measurement valuation used for the OPEB plan was year end of June 30, 2019, procedures were used to roll forward the total OPEB liability to the financial statement date of December 31, 2020.

At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	\$ 0	\$ 0
Payments subsequent to the measurement date	\$ 3,550	\$ 0
Total	\$ 3,550	\$ 0

Deferred outflows of resources of \$3,550 resulting from payments subsequent to the measurement date will be recognized as reduction of the total OPEB liability in the year ended December 31, 2020. There are no other amounts reported as deferred outflows and deferred inflows of resources related to OPEB.

Deferred Compensation

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

Note 8 - Risk Management

Washington Cities Insurance Authority

The City of Mukilteo is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$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.

There were no claims in excess of insurance coverage during the year ended December 31, 2020.

Unemployment

The City is a reimbursable employer with the Washington State Employment Security Department; therefore, it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2020:

	2019	2020
Liability - beginning	\$ -	\$ -
Claims incurred	29,841	7,348
Claims payments	(29,841)	(7,348)
Adjustments	-	-
Liability - ending	\$ -	\$ -

Note 9 - Lease Obligations

Operating lease

The City leases copy equipment under noncancelable operating leases. Total cost for such leases was \$9,869 for the year ended December 31, 2020. The future minimum lease payments for these leases are as follows:

Year Ended December 31	Amount
2021	\$ 9,347
2022	2,406
Total	<u>\$ 11,753</u>

Note 10 - Long-Term Debt

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

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

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

As of December 31, 2019, there was \$0 of debt defeased in-substance still outstanding. These bonds were callable and paid by escrow in December 2019.

At December 31, 2020, the City had the following general obligation bonds outstanding:

	Issue Date	Maturity Date	Average Coupon Interest Rate	Issuance Amount	Beginning Balance 1/1/2020	Additions	Deletions	Outstanding Balance at 12/31/2020
GENERAL OBLIGATION BONDS								
2017 LTGO Advanced Refunding Bonds	02/19/2017	12/01/2029	2.40%	\$ 7,980,000	\$ 7,730,000	\$ -	\$ 695,000	\$ 7,035,000
Total General Obligation Bonds				<u>\$ 7,980,000</u>	<u>\$ 7,730,000</u>	<u>\$ -</u>	<u>\$ 695,000</u>	<u>\$ 7,035,000</u>

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

Year Ending December 31	Bonds	
	Principal	Interest
2021	\$ 710,000	\$ 168,840
2022	730,000	151,800
2023	745,000	134,280
2024	760,000	116,400
2025	780,000	98,160
2026-2029	3,310,000	200,880
Total	<u>\$ 7,035,000</u>	<u>\$ 870,360</u>

Note 11 - Construction and Other Significant Commitments

The City had the following significant contractual obligations on construction projects at December 31, 2019:

Contracting Entity	Project Name	Balance
KLB Construction Inc.	Harbour Reach Corridor Project	\$ 3,560,841
Pertect	Harbour Reach Corridor Project	943,864
J.A. Brennan	Japanese Gulch Daylighting Design	383,046
PACE Engineers, Inc.	Decant Facility	164,196
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	156,080
New West Development	61st Place West Retaining Wall Repair	97,707
Pertect	76th PL SW & SR525	53,175
Alta Terra Consulting	Stormwater Pipe Assessment and Management Plan	22,237
		<u>\$ 5,381,145</u>

Note 12 - Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2020:

	Balance 1/1/2020	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 7,730,000	\$ -	\$ (695,000)	\$ 7,035,000	\$ 710,000
Compensated absences	1,656,657	1,647,858	(1,479,890)	1,824,625	139,114
Pension obligation	1,250,979	86,576	(107,925)	1,229,630	-
Other post-employment benefits	360,608	31,524	-	392,132	-
Governmental activities - long-term liabilities	<u>10,998,244</u>	<u>1,765,958</u>	<u>(2,282,815)</u>	<u>10,481,387</u>	<u>849,114</u>
Business-type activities:					
Compensated absences	127,241	144,078	(115,349)	155,970	11,891
Pension obligations	295,540	20,146	(25,114)	290,572	-
Business-type activities - long-term liabilities	<u>422,781</u>	<u>164,224</u>	<u>(140,463)</u>	<u>446,542</u>	<u>11,891</u>
Total long-term liabilities	<u>\$ 11,421,025</u>	<u>\$ 1,930,182</u>	<u>\$ (2,423,278)</u>	<u>\$ 10,927,929</u>	<u>\$ 861,005</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end \$22,356 of internal service funds compensated absences and \$67,255 of internal service funds pension obligations are included in the above amounts.

Note 13 - Contingencies and Litigation

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

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

Note 14 - Interfund Balances and Transfers

Interfund transfers

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

Interfund transfers at December 31, 2020 were as follows:

Transfers Out	Transfers In				Total
	General Fund	Debt Service Fund	Capital Projects Fund	Facility Renewal Fund	
General Fund	\$ -	\$ -	\$ 253,458	\$ 250,000	\$ 503,458
Capital Projects Fund	113,300	880,345	-	-	993,645
Surface Water Fund	37,800	-	47,675	10,450	95,925
Total	<u>\$ 151,100</u>	<u>\$ 880,345</u>	<u>\$ 301,133</u>	<u>\$ 260,450</u>	<u>\$ 1,593,028</u>

The General Fund transferred \$250,000 to the Facility Renewal Fund to fund various equipment and vehicle replacements. The General Fund also transferred \$253,458 from the Streets management fund to the Capital Projects Fund for various transportation improvements.

The Capital Projects Fund transferred \$113,300 to the General Fund to help fund the Capital Project Engineer position. The Capital Projects Fund also transferred \$880,345 to the Debt Service Fund for general obligation debt payments.

The \$37,800 transfer from Surface Water Fund to General Fund was to recover a portion of the Capital Project Engineer salary and benefits. The \$47,675 transfer from the Surface Water Fund to the Capital Projects Fund was to pay for surface water system improvements as part of a larger transportation capital project. The transfer of \$10,450 from the Surface Water Fund to the Facility Renewal Fund was for partial payment on various equipment purchases.

Note 15 - Joint Ventures

Snohomish County 911

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

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

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this agreement shall be returned to the parties to this agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the City's share was \$918,285 on December 31, 2020.

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

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

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

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (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 \$2,227. This is not considered material therefore the value has not been recorded in the financial statements.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Director of Finance, HASCO, 12711 4th Ave W, Everett WA 98204 (or email: pfrost@hasco.org) or from Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

Note 16 - COVID-19

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

The Mayor issued an Emergency Proclamation in response to the COVID-19 public health crisis on March 10, 2020. The situation evolved rapidly and resulted in the closures of City facilities and parks. After this date, all non-essential staff were pushed to telework from home if possible while non-essential staff who were unable to work from home were out on paid emergency leave. Federal leave options became available beginning in April for qualified employees.

The City is in a strong financial position to face this unprecedented situation with fund balances that exceed minimum levels and high liquidity. The primary anticipated fiscal impacts for 2020 are reduced revenues from sales tax, fuel tax, other sales tax supported State shared revenues, reduced revenues from community center rental fees, and parking revenues. In addition, the City has incurred unbudgeted expenditures for personnel costs to respond to the emergency as well as the purchase of personal protective equipment, cleaning supplies and telework equipment.

City Council has been provided with monthly updates on the status of the budget in relation to the public health emergency. The City has a Gap Closing Policy in place that has provided the framework for handling the situation. There are three potential levels of Gap: Watch, Moderate, and Severe. Because of the rapidly evolving nature of the situation, inherent delays in revenue reporting and possible grant reimbursements through various organizations and funding sources, the level of Gap has not yet been determined and the Gap Closing Plan is not yet fully developed.

While awaiting additional information on potential grant programs to reimburse for expenditures related to mitigating and responding to the public health emergency, the City has held off on making transfers/contributions to non-operational reserve accounts including Equipment Replacement and Facility Renewal in order to ensure operational needs can be met with potentially decreased revenues. Multiple positions in the Community Development and Public Works Departments are being held vacant for a to-be-determined amount of time.

Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

Streets:

The City has taken a pragmatic approach with pavement management practices associated with public streets. City performed a city-wide pavement condition assessment in 2014, 2016, 2018, and 2020 and updated the Pavement Management Program (PMP). The PMP provides a management tool to inventory street pavement, assess pavement condition, record historical surface improvements, forecast street budget requirements, and view impacts of funding on City-wide pavement condition over time.

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

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

Table 1
Overall Pavement Condition Assessment 2014, 2016, 2018 & 2020

Condition Rating	2014		2016		2018		2020	
	Miles	Percentage	Miles	Percentage	Miles	Percentage	Miles	Percentage
Excellent	7.0	11.5%	-	0.0%	6.5	10.4%	10.9	17.5%
Very Good	43.8	71.9%	51.8	86.8%	46.4	74.4%	40.6	65.3%
Good	7.1	11.7%	5.2	8.7%	7.2	11.5%	9.1	14.6%
Poor	2.3	3.8%	2.4	4.0%	2.0	3.2%	1.4	2.3%
Very Poor	0.7	1.1%	0.3	0.5%	0.3	0.5%	0.2	0.3%
Total	60.9		59.7		62.4		62.2	

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

The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There are two State highways (SR 525 and SR 526) which are considered arterial streets within the City limits: these pavement surfaces are maintained by Washington State Department of Transportation (WSDOT). The entire pavement system within the City of Mukilteo is composed of approximately 62.2 miles of paved surface and is divided into 409 pavement management segments. To assist in planning the surfacing needs, the City streets were grouped by functional class. The table below shows the City's pavement mileage by functional classification:

Table 2
Pavement Mileage by Functional Class

Functional Classification	Centerline Miles
Arterial	2.3
Urban Minor Arterial	10.9
Collector	48.2
Residential/Local	0.8
Grand Total	62.2

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

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

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2014 to 2020.

Year	2020	2019	2018	2017	2016	2015	2014
Planned	\$ 1,624,261	\$ 1,706,500	\$ 3,244,600	\$ 1,045,000	\$ 882,000	\$ 350,000	\$ 317,000
Actual	266,216	819,785	907,801	722,108	350,022	412,831	16,200
Variance	\$ 1,358,045	\$ 886,715	\$ 2,336,799	\$ 322,892	\$ 531,978	\$ (62,831)	\$ 300,800
	83.61%	51.96%	72.02%	30.90%	60.31%	-17.95%	94.89%

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary and Actual
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 14,191,762	\$ 14,191,762	\$ 14,336,633	\$ 144,871
Licenses and permits	1,716,900	1,716,900	1,646,099	(70,801)
Intergovernmental revenues	1,164,100	1,206,050	3,087,239	1,881,189
Charges for services	1,430,930	1,430,930	839,229	(591,701)
Fines and penalties	210,350	210,350	127,414	(82,936)
Miscellaneous	1,399,450	1,399,450	970,240	(429,210)
Total revenues	20,113,492	20,155,442	21,006,853	851,411
Expenditures				
Current:				
General government	4,353,165	4,426,349	4,824,439	398,090
Public safety	10,844,050	11,060,100	10,609,773	(450,327)
Transportation	1,322,000	1,322,000	1,168,653	(153,347)
Natural & economic environment	1,236,850	1,236,850	1,008,962	(227,888)
Social services	27,478	27,478	27,715	237
Culture and recreation	1,877,150	1,877,150	1,564,922	(312,228)
Capital outlay:				
General government	50,000	50,000	-	(50,000)
Total expenditures	19,710,693	19,999,927	19,204,463	(795,464)
Excess (deficiency) of revenues over (under) expenditures	402,799	155,515	1,802,390	1,646,875
Other Financing Sources (Uses)				
Transfers in	449,475	449,475	(87,992)	(537,467)
Insurance recovery	5,000	5,000	-	(5,000)
Transfers out	(1,472,911)	(1,472,911)	(264,367)	1,208,544
Total other financing sources and uses	(1,018,436)	(1,018,436)	(352,358)	666,078
Net change in fund balances	(615,637)	(862,921)	1,450,031	2,312,952
Fund balances - beginning	5,998,675	5,998,675	5,998,675	-
Fund balances - ending	\$ 5,383,038	\$ 5,135,754	\$ 7,448,706	\$ 2,312,952

Schedule of Changes in Total OPEB Liability and Related Ratios
LEOFF 1 OPEB Plan
For the year ended December 31, 2020
Last 3 Fiscal Years*

	2020	2019	2018
Total OPEB liability - beginning	\$ 360,608	\$ 376,868	\$ 372,278
Service cost	-	-	-
Interest	12,141	14,080	12,933
Changes in benefit terms	-	(32,702)	-
Differences between experience data and assumptions	21,860	2,362	(7,529)
Benefit payments	(2,477)	-	(814)
Other changes	-	-	-
Total OPEB liability - ending	\$ 392,132	\$ 360,608	\$ 376,868
Covered payroll**	-	-	-
Total OPEB liability as a % of covered payroll	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.

** Covered payroll is the payroll of employees that are provided with OPEB through the OPEB plan (GASB 75, par. 246)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last 7 Fiscal Years *

PERS 1 PLAN	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.029263%	0.030327%	0.03333%	0.03197%	0.03279%	0.033352%	0.031653%
Employer's proportionate share of the net pension liability (asset)	\$ 1,033,142	\$ 1,166,181	\$ 1,488,484	\$ 1,517,145	\$ 1,760,924	\$ 1,744,620	\$ 1,594,535
Employer's covered payroll	\$ 4,439,862	\$ 3,293,382	\$ 3,655,663	\$ 3,960,306	\$ 3,869,185	\$ 3,660,412	\$ 3,290,203
Employer's proportionate share of the net pension liability as a percentage of covered payroll	23.27%	35.41%	40.72%	38.31%	45.51%	47.66%	48.46%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
PERS 2/3 PLAN	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.038083%	0.039156%	0.04279%	0.03965%	0.04064%	0.039290%	0.036539%
Employer's proportionate share of the net pension liability (asset)	\$ 487,060	\$ 380,338	\$ 730,533	\$ 1,377,752	\$ 2,046,192	\$ 1,403,854	\$ 738,585
Employer's covered payroll	\$ 4,439,862	\$ 3,293,382	\$ 3,655,663	\$ 3,900,083	\$ 3,813,595	\$ 3,515,670	\$ 3,128,153
Employer's proportionate share of the net pension liability as a percentage of covered payroll	10.97%	11.55%	19.98%	35.33%	53.66%	39.93%	23.61%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%
LEOFF 1 PLAN	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.003066%	0.003001%	0.00295%	0.00376%	0.00470%	0.004645%	0.004607%
Employer's proportionate share of the net pension liability (asset)	\$ (57,902)	\$ (59,318)	\$ (53,521)	\$ (57,063)	\$ (48,382)	\$ (55,983)	\$ (55,873)
Employer's proportionate share of the net pension liability 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	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%
LEOFF 2 PLAN	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.165824%	0.166120%	0.173910%	0.169320%	0.175090%	0.176909%	0.185026%
Employer's proportionate share of the net pension liability (asset)	\$ (3,382,567)	\$ (3,848,444)	\$ (3,530,651)	\$ (2,349,543)	\$ (1,018,376)	\$ (1,818,271)	\$ (2,455,375)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (2,191,342)	\$ (2,520,215)	\$ (2,286,030)	\$ (1,524,105)	\$ (663,907)	\$ (1,202,242)	\$ -
TOTAL	\$ (5,573,909)	\$ (6,368,659)	\$ (5,816,681)	\$ (3,873,648)	\$ (1,682,283)	\$ (3,020,213)	\$ (2,455,375)
Employer's covered payroll	\$ 6,249,146	\$ 5,789,191	\$ 5,718,957	\$ 5,306,023	\$ 5,302,559	\$ 5,149,879	\$ 5,012,176
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-54.13%	-66.48%	-61.74%	-44.28%	-19.21%	-35.31%	-48.99%
Plan fiduciary net position as a percentage of the total pension liability (asset)	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%	61.19%

* The City implemented GASB Statement No. 68 in fiscal year 2014. Information is not available for prior years. The schedule will be built prospectively until it contains ten years of data.

Notes to Schedule:

Significant methods and assumptions used in calculating the actuarial determined contribution are presented in Note 13.

Contribution and covered payroll on this schedule is based on the plan fiscal year - July 1st through June 30th.

LEOFF 1 plan is closed and has no further covered payroll.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Employer Contributions
As of December 31, 2020
Last 7 Fiscal Years *

PERS 1 PLAN	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 434,067	\$ 206,644	\$ 218,387	\$ 215,055	\$ 186,362	\$ 158,036	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (434,067)</u>	<u>\$ (206,644)</u>	<u>\$ (218,387)</u>	<u>\$ (215,055)</u>	<u>\$ (186,362)</u>	<u>\$ (158,036)</u>	<u>\$ (538,081)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 4,517,511	\$ 3,338,310	\$ 3,451,002	\$ 4,006,267	\$ 3,831,894	\$ 3,505,649	\$ 3,217,521
Contributions as a percentage of covered payroll	9.61%	6.19%	6.33%	5.37%	4.86%	4.51%	16.72%
PERS 2/3 PLAN	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 647,731	\$ 345,250	\$ 323,537	\$ 281,188	\$ 253,930	\$ 209,660	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (647,731)</u>	<u>\$ (345,250)</u>	<u>\$ (323,537)</u>	<u>\$ (281,188)</u>	<u>\$ (253,930)</u>	<u>\$ (209,660)</u>	<u>\$ (538,081)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 4,517,511	\$ 3,338,310	\$ 3,451,002	\$ 3,973,885	\$ 3,778,534	\$ 3,419,503	\$ 3,058,441
Contributions as a percentage of covered payroll	14.34%	10.34%	9.38%	7.08%	6.72%	6.13%	17.59%
LEOFF 1 PLAN	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A
LEOFF 2 PLAN	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 231,664	\$ 319,510	\$ 302,830	\$ 283,092	\$ 271,069	\$ 263,284	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (231,664)</u>	<u>\$ (319,510)</u>	<u>\$ (302,830)</u>	<u>\$ (283,092)</u>	<u>\$ (271,069)</u>	<u>\$ (263,284)</u>	<u>\$ (538,081)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$ 6,173,210	\$ 6,059,948	\$ 5,725,591	\$ 5,236,373	\$ 5,134,770	\$ 4,976,657	\$ 4,792,253
Contributions as a percentage of covered payroll	3.75%	5.27%	5.29%	5.41%	5.28%	5.29%	11.23%

* The City implemented GASB Statement No. 68 in fiscal year 2014. Information is not available for prior years. The schedule will be build prospectively until it contains ten years of data.

City of Mukilteo
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
JUSTICE, DEPARTMENT OF - OFFICE ON VIOLENCE AGAINST WOMEN (via WA State Department of Commerce / City of Everett PD)	Violence Against Women Formula Grants	16.588	STOP Grant	901	-	901	-
Highway Planning and Construction Cluster							
FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via WA State Department of Transportation)	Highway Planning and Construction	20.205	LA-9283 / STPUL-2729 (002)	81,971	-	81,971	-
Total Highway Planning and Construction Cluster:				81,971	-	81,971	-
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA State Department of Commerce)	COVID 19 - Coronavirus Relief Fund	21.019	20-6541C-259	960,750	-	960,750	-
HEALTH RESOURCES AND SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF	Provider Relief Fund	93.498	NA	-	49,543	49,543	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via State of Washington Military Department)	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	D20-134 / 4481- DR-WA	46,329	-	46,329	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via State of Washington Military Department)	Hazard Mitigation Grant	97.039	D20-018 / 4056- WA-12-R	1,347,270	-	1,347,270	-

The accompanying notes are an integral part of this schedule.

City of Mukilteo
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total		
	FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Snohomish County Emergency Management Services)	Emergency Management Performance Grants	97.042	E20-135	119,281	-	119,281	-	
	FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via King County Office of Emergency Management)	Preparing for Emerging Threats and Hazards	97.133	EMW-2016-GR- 00145-S01	653	-	653	-	
Total Federal Awards Expended:					2,557,155	49,543	2,606,698	-	

City of Mukilteo

Notes to the Schedule of Expenditure of Federal Awards
For the Year Ended December 31, 2020

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis for its governmental fund types and the accrual basis of accounting for the proprietary and fiduciary fund types.

Note 2 – Federal De Minimis Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Noncash Awards

During the emergency period of COVID-19 pandemic and as allowed under OMB Memorandum M-20-20 (April 9, 2020), federal agencies and recipients donated Personal Protection Equipment (PPE) purchased with federal assistance funds to various entities for the COVID-19 response. As such, the City received donated PPE which the fair market value of the PPE at the time of receipt was \$ 161,244. Donated PPE has no bearing on the single audit. (Unaudited)

Note 4 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

**Combining Statement of Net Position
Internal Service Funds
December 31, 2020**

	Equipment Replacement Reserve	Facilities Maintenance Fund	Facility Renewal Reserve	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,584,652	\$ 134,367	\$ 261,348	\$ 1,980,367
Grants	-	22,242	-	22,242
Prepaid expenses	1,000	19,257	-	20,257
Total current assets	1,585,652	175,866	261,348	2,022,866
Noncurrent assets:				
Capital assets: (net of accumulated depreciation)				
Construct in progress	100	-	-	100
Buildings and structures	-	-	6,317	6,317
Other improvements	38,985	-	217,915	256,900
Equipment	2,564,632	-	160,181	2,724,814
Total noncurrent assets	2,603,718	-	384,413	2,988,130
Total assets	4,189,370	175,866	645,761	5,010,997
Deferred Outflows of Resources				
Deferred pension outflows	-	24,017	-	24,017
Total deferred outflows	-	24,017	-	24,017
Liabilities				
Current liabilities:				
Accounts payable	114	47,687	-	47,801
Wages payable	-	10,077	-	10,077
Compensated absences	-	1,704	-	1,704
Total current liabilities	114	59,469	-	59,582
Noncurrent liabilities:				
Compensated absences	-	20,652	-	20,652
Net pension liability	-	67,255	-	67,255
Total noncurrent liabilities	-	87,907	-	87,907
Total liabilities	114	147,376	-	147,489
Deferred Inflows of Resources				
Deferred pension inflows	-	25,565	-	25,565
Total deferred inflows	-	25,565	-	25,565
Net Position				
Investment in capital assets	2,603,718	-	384,413	2,988,130
Unrestricted	1,585,538	26,943	261,348	1,873,829
Total net position	\$ 4,189,256	\$ 26,943	\$ 645,761	\$ 4,861,959

**Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Year Ended December 31, 2020**

	Equipment Replacement Reserve	Facilities Maintenance Fund	Facility Renewal Reserve	Total
Operating Revenues				
Intergovernmental	\$ -	\$ 27,288	\$ 20,000	\$ 47,288
Charges for services	455,000	815,434	-	1,270,434
Total operating revenues	455,000	842,722	20,000	1,317,722
Operating Expenses				
Depreciation	433,446	-	63,316	496,762
Salaries	-	199,690	-	199,690
Personnel benefits	-	84,993	-	84,993
Supplies	-	48,917	-	48,917
Other services and charges	-	491,131	209,701	700,832
Total operating expenses	433,446	824,731	273,017	1,531,194
Operating income (loss)	21,554	17,991	(253,017)	(213,472)
Nonoperating Revenues (Expenses)				
Investment income	10,109	-	-	10,109
Gain (loss) on disposal of capital assets	9,930	402	-	10,332
Donations and contributions	-	-	10,000	10,000
Total nonoperating revenues (expenses)	20,039	402	10,000	30,441
Income (loss) before contributions and transfers	41,593	18,393	(243,017)	(183,031)
Transfers in	-	-	260,450	260,450
Change in net position	41,593	18,393	17,433	77,419
Total net position - beginning	4,147,663	8,550	628,328	4,784,540
Total net position - ending	\$ 4,189,256	\$ 26,943	\$ 645,761	\$ 4,861,959

**Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2020**

	Equipment Replacement Reserve	Facilities Maintenance Fund	Facility Renewal Reserve	Total
Cash Flows From Operating Activities:				
Cash received from customers and users	\$ 512,024	\$ 815,434	\$ -	\$ 1,327,458
Cash received from grantor	-	5,045	20,000	25,045
Cash payments to suppliers	(83,188)	(551,130)	(209,701)	(844,018)
Cash payments to employees and retirees	-	(297,120)	-	(297,120)
Net cash provided (used) by operating activities	428,836	(27,770)	(189,701)	211,365
Cash Flows From Noncapital Financing Activities				
Non-operating miscellaneous revenue	10,000	402	10,000	20,402
Operating subsidies and transfers from other funds			260,450	260,450
Net cash provided (used) by noncapital financing activities	10,000	402	270,450	280,852
Cash Flows From Capital Financing Activities				
Proceeds from disposition of capital assets	(70)	-	-	(70)
Acquisition and construction of capital assets	(236,686)	-	(158,729)	(395,415)
Net cash provided (used) by capital financing activities	(236,756)	-	(158,729)	(395,486)
Cash Flows From Investing Activities				
Investment maturity	1,000,000	-	-	1,000,000
Investment sales and income	9,135	-	-	9,135
Net cash provided (used) by investing activities	1,009,135	-	-	1,009,135
Net increase (decrease) in cash and cash equivalents	1,211,215	(27,368)	(77,980)	1,105,866
Cash and cash equivalents, January 1	373,437	161,735	339,328	874,501
Cash and cash equivalents, December 31	\$ 1,584,652	\$ 134,367	\$ 261,348	\$ 1,980,366
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 21,554	\$ 17,991	\$ (253,017)	\$ (213,472)
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:				
Depreciation	433,446	-	63,316	496,762
(Increase) decrease in customer receivables	57,024	-	-	57,024
(Increase) decrease in grantor receivables	-	(22,242)	-	(22,242)
(Increase) decrease in prepaid expenses	(1,000)	(2,824)	-	(3,824)
(Increase) decrease in deferred pension outflows	-	(2,238)	-	(2,238)
Increase (decrease) in accounts payable	(82,188)	(8,257)	-	(90,445)
Increase (decrease) in compensated absences	-	9,337	-	9,337
Increase (decrease) in employee and benefit liabilities	-	240	-	240
Increase (decrease) in pension obligation	-	(1,101)	-	(1,101)
Increase (decrease) in pension inflows	-	(18,676)	-	(18,676)
Total adjustments	407,282	(45,761)	63,316	424,837
Net cash provided (used) by operating activities	\$ 428,836	\$ (27,770)	\$ (189,701)	\$ 211,365
Non-cash activities:				
Depreciation of capital assets	433,446	-	63,316	496,762
Total non-cash activities	\$ 433,446	\$ -	\$ 63,316	\$ 496,762



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

City of Mukilteo
January 1, 2020 through December 31, 2020

This schedule presents the corrective action planned by the City for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2020-001	Finding caption: The City's internal controls were inadequate for ensuring compliance with federal requirements for allowable activities and costs.
Name, address, and telephone of City contact person: Shawn Hunstock, Finance Director 11930 Cyrus Way Mukilteo, WA 98275 (425) 263-8030	
Corrective action the auditee plans to take in response to the finding: <i>Going forward the City will ensure that any business or community support payments will comply with stated eligibility requirements, and that any reporting requirements from recipients to the City will occur.</i>	
Anticipated date to complete the corrective action: The City will ensure that eligibility and reporting requirements for public or business assistance are met with any future payments in 2022 or later.	

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