



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## City of Mukilteo

For the period January 1, 2022 through December 31, 2022

*Published November 18, 2024*

Report No. 1035943



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

November 18, 2024

Mayor and City Council  
City of Mukilteo  
Mukilteo, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### City of Mukilteo January 1, 2022 through December 31, 2022

#### **2022-001 The City's internal controls over preparing the Schedule of Expenditures of Federal Awards were inadequate for ensuring accurate and complete reporting.**

##### ***Background***

State and federal agencies, City officials and the public rely on information included in the financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and accurate.

State law (RCW 43.09.230) requires local governments to submit annual financial reports to the State Auditor's Office. Local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of their annual financial report. Federal regulations require grantees to identify on the SEFA all federal money they have spent.

Uniform Guidance requires governments that spend \$750,000 or more in federal funds in a year to obtain a federal single audit. Further, governments must submit audit results to the Federal Audit Clearinghouse within 30 calendar days after issuance of the audit report or within nine months after the audit period, whichever is earlier.

##### ***Description of Condition***

The City did not have an effective review process to detect and correct errors on the SEFA before submitting it for audit. While performing the fiscal year 2022 financial statement audit, we found the City did not include expenditures from two federal programs on its fiscal year 2022 SEFA.

When the City revised its SEFA, total annual federal expenditures exceeded the \$750,000 threshold that requires a federal Single Audit.

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

We did not report this issue as a finding in the prior audit.

### ***Cause of Condition***

The City experienced significant turnover in its finance and public works departments. City staff did not consistently hold project funding and status update meetings. Additionally, staff did not identify misclassification coding errors between federal and state expenditures until they started revising the fiscal year 2022 SEFA report at our request.

### ***Effect of Condition***

The initial SEFA did not report these 2022 federal program expenditures:

- Highway Planning and Construction for \$580,594
- COVID-19 Coronavirus State and Local Fiscal Recovery Funds for \$400,657

We also found the City reported \$26,246 of State and Local Fiscal Recovery Fund expenditures as a direct award from the U.S. Department of Treasury as well as an indirect award passed through Snohomish County. Additionally, after the City corrected the SEFA, we noted other less significant presentation errors.

The revised and final SEFA includes federal expenditures totaling \$1,056,210. This exceeds the \$750,000 threshold requiring a federal single audit. We had to subsequently perform a federal audit as a result of these errors.

### ***Recommendation***

We recommend the City strengthen internal controls over preparing the SEFA to ensure it presents the SEFA in accordance with federal reporting requirements and that it includes all expenditures of federal program funds.

### ***City's Response***

*The City of Mukilteo appreciates the opportunity to respond to the Washington State Auditor's Office's conclusion. We would like to thank the audit staff for the open communication throughout the 2022 Federal Single Audit. The City is committed to establishing and following effective internal controls for preparing and reviewing its financial statements*

*In 2022, the Finance Department accounting team and other City departments experienced a very high staff turnover. Due to the turnover in accounting personnel responsible for preparing the SEFA, the City did not have adequate resources to ensure the accuracy of the SEFA report. City staff has since stabilized. There is*

*improved communication regarding grant awards and expenditures between the departments and the Accounting staff. Accounting staff has also attended grant management and reporting training. Staff now better understands the reporting requirements.*

*The City thanks the State Auditor's Office staff for the review, assessment and recommendations related to the 2022 Federal Single Audit. We understand the importance of accurate financial reporting and are committed to making this our priority.*

### ***Auditor's Remarks***

We thank the City for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the City's corrective action during our next audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

*Budgeting, Accounting and Reporting System* (BARS Manual), 4.14.5, Expenditures of Federal Awards (Schedule 16), requires governments that expend over \$750,000 or more in federal grant awards in a year, must arrange a federal single audit in accordance with the Uniform Guidance, 2 CFR 200, Subpart F-Audit Requirements.

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 510 – Financial Statements, establishes criteria and requirements related to the preparation of the schedule of expenditures of Federal awards.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

Title 2 CFR Part 200, Uniform Guidance, section 302 – Financial Management, requires grantees to identify, in their accounts, all Federal awards received and expended and the Federal programs under which the awards were received.

Title 2 CFR Part 200, Uniform Guidance, section 501 – Audit Requirements, requires non-Federal entities that expend Federal awards of \$750,000 or more during its fiscal year to have conducted a single audit.

Title 2 CFR Part 200, Uniform Guidance, section 514 – Scope of Audit, requires the audit be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and encompass the financial statements and schedule of expenditure of Federal awards (SEFA).

Title 2 CFR Part 200, Uniform Guidance, section 512 – Report submission, requires the audit be completed, the data collection form and reporting package submitted within the earlier of 30 calendar days after the auditor's report, or nine months after the end of the audit period.



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### City of Mukilteo January 1, 2022 through December 31, 2022

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

<b>Audit Period:</b> January 1, 2021 through December 31, 2021	<b>Report Ref. No.:</b> 1032925	<b>Finding Ref. No.:</b> 2021-001
<b>Finding Caption:</b> The City's internal controls over accounting of capital assets were inadequate for ensuring accurate financial reporting.		
<b>Background:</b> The City had significant turnover in the finance and public works departments in 2021, they did not effectively communicate the status for the City's ongoing capital projects throughout the year. Our audit identified four capital projects with a total value of \$21.7 million that were substantially complete at year-end. These capital projects improperly remained in the construction in progress balance. This error also caused depreciation expense to be understated by \$76,403. When correcting this error, the City reclassified one of the four projects out of the Surface Water Fund, a restricted purpose fund, to a governmental fund because it was mostly paid for with federal and state grants. This caused a misstatement of transfers totaling \$2.3 million. In addition, the City was unable to provide documentation demonstrating the transfer of the asset out of the restricted purpose fund did not constitute one fund benefitting at the expense of another.		
<b>Status of Corrective Action: (check one)</b> <div><input checked="checked" type="checkbox"/> Fully Corrected</div> <div><input type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> Not Corrected</div> <div><input type="checkbox"/> Finding is considered no longer valid</div>		
<b>Corrective Action Taken:</b> <i>Finance staff meets with Public Works (PW) to ensure awareness of "Completed" and "Substantially Completed" projects. Finance additionally reviews the project files to check status of projects.</i>		

## INDEPENDENT AUDITOR'S REPORT

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### City of Mukilteo January 1, 2022 through December 31, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 12, 2024.

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2022-001, that we consider to be a material weakness.

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as Finding 2022-001.

## **CITY'S RESPONSE TO FINDINGS**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

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

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

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

Pat McCarthy, State Auditor

Olympia, WA

November 12, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **City of Mukilteo January 1, 2022 through December 31, 2022**

Mayor and City Council  
City of Mukilteo  
Mukilteo, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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

## **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

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

### **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on

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

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

Pat McCarthy, State Auditor

Olympia, WA

November 12, 2024

## FINANCIAL SECTION

### City of Mukilteo January 1, 2022 through December 31, 2022

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

Statement of Activities – 2022

Balance Sheet – Governmental Funds – 2022

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
– 2022

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental  
Funds – 2022

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities – 2022

Statement of Net Position – Proprietary Funds – 2022

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds  
– 2022

Statement of Cash Flows – Proprietary Funds – 2022

Statement of Fiduciary Net Position – Fiduciary Funds – 2022

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – 2022

Notes to Financial Statements – 2022

#### REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting  
Approach – 2022

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3,  
LEOFF 1, LEOFF 2 – 2022

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2022

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual  
– General Fund – 2022

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary and  
Actual Note to RSI – 2022

## 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, 2022. 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 \$236,292,395 (net position) for the calendar year reported.
- Total net position is comprised of the following:
  1. Net investment in capital assets of \$207,989,680 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  2. \$13,637,431 of net position is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  3. The unrestricted net position of \$14,665,284 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 \$13,720,780 this year. This compares to the prior year ending fund balance of \$12,890,534 showing an increase of \$830,246 or 6.4% 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 \$2,940,420 or 13.8% 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 a custodial 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 Changes in Total Other Postemployment Benefits Liability and Related Ratios, and two schedules related to pension obligations - Schedule of Proportionate Share of Net Pension Liability and Schedule of Employer Contributions.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### STATEMENT OF NET POSITION

The following table provides a summary of the City's net position for the years ended December 31, 2022 and 2021:

City of Mukilteo Summary of Net Position						
	Governmental Activities		Business Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Current assets	\$ 25,537,320	\$ 20,754,294	\$ 7,290,077	\$ 6,301,805	\$ 32,827,396	\$ 27,056,099
Capital assets	206,214,863	206,439,215	7,422,066	7,425,401	213,636,930	213,864,616
Other assets	6,186,392	13,380,682	285,484	730,321	6,471,876	14,111,003
Total assets	237,938,575	240,574,191	14,997,627	14,457,527	252,936,202	255,031,718
Deferred outflows	3,713,955	1,210,431	262,284	96,026	3,976,240	1,306,457
Current liabilities	9,884,111	6,378,610	276,319	446,015	10,160,431	6,824,625
Noncurrent liabilities	6,738,763	6,764,847	160,437	110,901	6,899,200	6,875,748
Total liabilities	16,622,874	13,143,457	436,756	556,916	17,059,631	13,700,373
Deferred inflows	3,256,701	8,278,130	303,715	769,970	3,560,416	9,048,100
Net position:						
Investment in capital assets	200,567,613	200,114,215	7,422,066	7,425,401	207,989,680	207,539,616
Restricted	13,358,004	12,194,415	279,427	57,551	13,637,431	12,251,966
Unrestricted	7,847,338	8,054,405	6,817,947	5,743,715	14,665,284	13,798,120
Total net position	\$ 221,772,955	\$ 220,363,035	\$ 14,519,440	\$ 13,226,667	\$ 236,292,395	\$ 233,589,702

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 2.58 to 1 at December 31, 2022. The current ratio for the business-type activities at December 31, 2022 is 26.38 to 1. For the City overall, the current ratio is 3.23 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased by \$1,409,920 for governmental activities and increased by \$1,292,773 for business-type activities. The City's overall financial position increased during calendar year 2022 by \$2,702,693.

The City reported that 90.4% 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 51.1% 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, 88.0% 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, 2022 and 2021:

City of Mukilteo Summary of Changes in Net Position						
	Governmental Activities		Business Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for services	\$ 4,495,416	\$ 5,497,179	\$ 3,987,512	\$ 4,007,795	\$ 8,482,928	\$ 9,504,974
Operating grants & contributions	2,602,788	1,942,918	-	1,810	2,602,788	1,944,728
Capital grants & contributions	682,486	6,420,699	127,375	1,258,194	809,861	7,678,893
General revenues:						
Property taxes	7,683,928	7,644,697	-	-	7,683,928	7,644,697
Other taxes	9,967,362	9,050,845	-	-	9,967,362	9,050,845
Miscellaneous revenue	846,213	143,274	75	-	846,288	143,274
Investment earnings	98,008	52,549	15,863	13,818	113,871	66,367
Total revenues	26,376,200	30,752,161	4,130,825	5,281,617	30,507,024	36,033,778
Program expenses:						
General government	5,242,460	4,418,988	-	-	5,242,460	4,418,988
Public safety	13,334,871	9,927,999	-	-	13,334,871	9,927,999
Transportation	2,972,439	2,469,341	-	-	2,972,439	2,469,341
Natural & economic environment	978,726	999,527	-	-	978,726	999,527
Social services	34,322	27,884	-	-	34,322	27,884
Culture and recreation	2,340,078	2,300,372	-	-	2,340,078	2,300,372
Interest on long term debt	150,833	167,414	-	-	150,833	167,414
Surface water management	-	-	2,750,601	2,245,506	2,750,601	2,245,506
Total expenses	25,053,730	20,311,525	2,750,601	2,245,506	27,804,331	22,557,031
Changes in net position	1,322,470	10,440,636	1,380,223	3,036,111	2,702,693	13,476,747
Transfers	87,450	2,323,083	(87,450)	(2,323,083)	(0)	-
Extraordinary item						
Total changes in net position	1,409,920	12,763,719	1,292,773	713,028	2,702,693	13,476,747
Net position - beginning	220,363,035	195,410,214	13,226,667	12,513,639	233,589,702	207,923,853
Net position - ending	\$ 221,772,955	\$ 220,363,035	\$ 14,519,440	\$ 13,226,667	\$ 236,292,395	\$ 233,589,702

### GOVERNMENTAL ACTIVITIES ANALYSIS

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. From 2021 to 2022, assessed valuation for average properties increased by 7.79%. Sales taxes increased by \$348,085 or 9.4% over 2022. Despite the impacts of the COVID-19 pandemic on the economy, certain sectors like retail sales saw an increase in activity in 2022. 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 54.8% of the total governmental activities revenue as compared to 48.1% in 2021. The increase for taxes is due to decreases in other revenue sources, primarily transportation related capital grants.

## GOVERNMENTAL FUNCTIONAL EXPENSES

### Total cost of services

Total cost of governmental services increased by \$4,742,204 due to the increase in overall pension balances, and the net cost of services increased by \$10,822,311, due to decreased transportation capital grants received in 2022 versus 2021.

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.

### City of Mukilteo Cost of Services

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021
General government	\$ 5,242,460	\$ 4,418,989	\$ 2,072,663	\$ 436,535
Public safety	13,334,871	9,927,999	11,085,472	8,112,129
Transportation	2,972,439	2,469,341	1,729,767	(4,474,438)
Natural & economic environment	978,726	999,527	969,403	989,260
Social services	34,322	27,884	34,322	27,884
Culture and recreation	2,340,078	2,300,372	1,230,580	1,191,945
Interest on long term debt	150,833	167,414	150,833	167,414
Total	<u>\$ 25,053,730</u>	<u>\$ 20,311,526</u>	<u>\$ 17,273,040</u>	<u>\$ 6,450,729</u>

## BUSINESS-TYPE ACTIVITIES ANALYSIS

The City maintains a single enterprise fund for surface water activities. In this fiscal year, operating revenues were \$3,987,512 and operating expenses were \$2,696,941, resulting in an operating gain of \$1,290,571.

Revenues from charges for services decreased \$20,094 or .5%. Decreases in Engineering Plan Review and additional revenues earned in 2021 which are not present in 2022 (Utility relocation construction services) contributed to the decrease in revenue.

Operations and maintenance costs increased \$490,056 or 21.4% from the 2021 amount. Depreciation expenses increased \$141,850 or 42.8% in 2022 as compared to 2021. Increased personnel costs and the associated benefits, an increase in depreciation expense, vehicle maintenance and other operational costs contributed to the increase. In this year, the Surface Water Fund transferred \$87,450 of resources to other funds. At December 31, 2022, the net position totaled \$14,519,440.

## 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 \$13,720,780 as compared to the amount of \$12,890,534 at December 31, 2021.

The restricted amount at December 31, 2022 was \$6,699,032 relating primarily to capital improvements funded by REET revenues.

The committed amount of \$1,138,431 is primarily for a contingency reserve of \$1 million.

The assigned fund balance of \$2,798,242 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 expenditure (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 \$146,233 or 1.8% in 2022.

Total revenues increased \$2,368,040 or 11.7% above the 2021 amount, which is largely related to federal support received in 2022 related to the COVID-19 pandemic, as well as increases in sales tax revenue.

Total licenses and permits were up \$108,646 or 5.8% above the 2021 amount, due to an increase in the number of commercial construction permits.

In 2022, total expenditures increased \$1,608,539 or 8.2% above the 2021 amount, due to an increase in public safety expenditures, as well as spending of federal support related to 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 decreased slightly from \$123,232 to \$135,679 from 2021 to 2022.

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 2022, the City recognized real estate excise tax collected in the amount of \$2,429,565 as compared to \$2,035,153 in 2021. Real estate activity improved overall in 2022, despite the on-going pandemic.

In 2022 capital outlay projects totaled \$1,627,311 while non-capital maintenance and other costs totaled \$1,312,361. Ending fund balance in 2022 was \$5,539,556. Capital outlay decreased from 2022 primarily related to completion of major projects.

**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 not amended in 2022. In total, the City realized 106.2% of estimated revenues.

Total tax revenue was \$498,387 higher than the budget, primarily due to sales tax revenue.

Overall, the General Fund expenditure budget was underspent by \$394,440. 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, 2022, was a .1% decrease for governmental activities and a 0% increase for business-type activities. The overall decrease was .1% 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, 2021 and 2022.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Nondepreciable assets:						
Land	\$ 43,725,242	\$ 43,725,242	\$ 150,000	\$ 150,000	\$ 43,875,242	\$ 43,875,242
Right of way	10,989,210	10,989,210	83,679	53,403	11,072,889	11,042,613
Art collections	287,624	287,624	-	-	287,624	287,624
Infrastructure - streets	122,210,736	120,733,861	-	-	122,210,736	120,733,861
Construction in progress	1,307,506	1,780,840	535,707	323,736	1,843,213	2,104,576
Total nondepreciable assets	178,520,318	177,516,777	769,386	527,139	179,289,704	178,043,916
Depreciable assets:						
Buildings	17,777,932	18,328,970	-	-	17,777,932	18,328,970
Other improvements	4,968,830	4,997,172	5,413,450	5,555,649	10,382,281	10,552,821
Machinery and equipment	2,374,316	2,454,774	1,239,230	1,342,613	3,613,547	3,797,387
Infrastructure	2,573,467	3,141,522	-	-	2,573,467	3,141,522
Total depreciable assets	27,694,545	28,922,438	6,652,681	6,898,262	34,347,226	35,820,700
Book value - all assets	<u>\$ 206,214,863</u>	<u>\$ 206,439,215</u>	<u>\$ 7,422,066</u>	<u>\$ 7,425,401</u>	<u>\$ 213,636,930</u>	<u>\$ 213,864,616</u>

At December 31, 2022, the depreciable capital assets for governmental activities were 57.6% depreciated, up from 54.5% as of December 31, 2021, reflecting the additional depreciation recognized in 2022.

### *Governmental Activities*

The decrease to the construction in progress balance is primarily due to completion of the projects, including:

- Harbour Reach Extension
- Harbour Reach Improvements
- 2022 MWWP Pavement Preservation
- Pavement Preservation Slurry Seal

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.

<b>2022 Overall Pavement Condition Assessment against City Goal</b>				
<b>Condition</b>	<b># Miles</b>	<b>% of Total</b>	<b>Cumulative</b>	<b>Within Goal</b>
Excellent	10.9	17.5%	17.5%	YES
Very Good	46.4	65.3%	82.8%	YES
Good	9.1	14.6%	97.4%	YES
Poor	1.4	2.3%	99.7%	NO
Very Poor	0.2	0.3%	100.0%	NO

Significant differences exist between the amount estimated necessary for maintaining infrastructure assets at target condition levels and the actual amount of expense incurred for this purpose during the current fiscal period. The 2017-2022 Pavement Preservation Plan recommends at least \$900,000 be spent annually on pavement preservation and restoration. The 2022 Budget authorized \$694,214 for general pavement preservation, \$185,000 for general sidewalk repair and an additional \$4,929,272 for other capital projects. Despite not spending the budgeted amount, the City's streets remain in overall excellent condition with only 1.6 miles (2.6% of total) rated as less than "good" condition. Decisions have been made to save funds for future, larger projects. In addition, the City is actively leveraging Grant matching opportunities.

A new Pavement Condition Assessment will be conducted in 2024.

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, 2022, and 2021.

**City of Mukilteo Outstanding Obligations**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
General obligation bonds	\$ 5,595,000	\$ 6,325,000	\$ -	\$ -	\$ 5,595,000	\$ 6,325,000
Compensated absences	2,024,413	1,805,759	90,920	130,314	2,115,332	1,936,073
Pension obligation	654,005	295,447	151,345	71,827	805,350	367,274
Leases	52,250	-	-	-	52,250	-
<b>Total</b>	<b>\$ 8,325,668</b>	<b>\$ 8,426,206</b>	<b>\$ 242,264</b>	<b>\$ 202,141</b>	<b>\$ 8,567,932</b>	<b>\$ 8,628,347</b>

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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

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;
- 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.

### 2023 BUDGET OVERVIEW

Adopted budgeted revenues and transfers in for all funds total \$33.7 million. Adopted budgeted expenditures and transfers out total \$44.7 million.

Exceeding the two-month minimum fund balance set by policy, the adopted budget includes an estimated ending balance in the General Fund of \$6.4 million which equals 38.4% of 2023 General Fund expenditures and transfers out.

### REQUESTS FOR INFORMATION

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Finance Director: City of Mukilteo, 11930 Cyrus Way, Mukilteo, WA 98275, 425-263-8035.

**Statement of Net Position  
December 31, 2022**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 21,977,102	\$ 6,589,596	\$ 28,566,699
Receivables (net of allowances):			
Taxes	1,502,098	-	1,502,098
Customer accounts	1,837,087	597,421	2,434,508
Grants	106,593	69,130	175,722
Internal balances	(32,930)	32,930	-
Prepays	147,369	1,000	148,369
Total current assets	<u>25,537,320</u>	<u>7,290,077</u>	<u>32,827,396</u>
Noncurrent assets:			
Net pension asset	5,640,761	285,484	5,926,245
Investment in joint venture	545,631	-	545,631
Capital assets not being depreciated:			
Land	43,725,242	150,000	43,875,242
Right of way easements	10,989,210	83,679	11,072,889
Art collections	287,624	-	287,624
Infrastructure - streets	122,210,736	-	122,210,736
Construction in progress	1,307,506	535,707	1,843,213
Capital assets, net of accumulated depreciation:			
Buildings	17,777,932	-	17,777,932
Other improvements	4,968,830	5,413,450	10,382,281
Machinery and equipment	2,374,316	1,239,230	3,613,547
Infrastructure	2,573,467	-	2,573,467
Total noncurrent assets	<u>212,401,255</u>	<u>7,707,550</u>	<u>220,108,805</u>
Total assets	<u>237,938,575</u>	<u>14,997,627</u>	<u>252,936,202</u>
Deferred outflows of resources:			
Pension obligations	3,713,955	262,284	3,976,240
Total deferred outflows of resources	<u>3,713,955</u>	<u>262,284</u>	<u>3,976,240</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	1,066,488	142,084	1,208,572
Accrued wages	639,171	52,408	691,578
Deposits payable	776,626	-	776,626
Unearned revenue	5,803,732	-	5,803,732
Accrued interest payable	11,190	-	11,190
Compensated absences - current	830,510	81,827	912,337
Leases - current	11,395	-	11,395
Bonds - current	745,000	-	745,000
Total current liabilities	<u>9,884,111</u>	<u>276,319</u>	<u>10,160,431</u>
Noncurrent liabilities:			
Compensated absences	1,193,903	9,092	1,202,995
Net pension liabilities	654,005	151,345	805,350
Leases	40,855	-	40,855
Bonds	4,850,000	-	4,850,000
Total noncurrent liabilities	<u>6,738,763</u>	<u>160,437</u>	<u>6,899,200</u>
Total liabilities	<u>16,622,874</u>	<u>436,756</u>	<u>17,059,631</u>
Deferred Inflows of Resources			
Pension obligations	3,256,701	303,715	3,560,416
Total deferred inflows of resources	<u>3,256,701</u>	<u>303,715</u>	<u>3,560,416</u>
<b>Net Position</b>			
Net investment in capital assets	200,567,613	7,422,066	207,989,680
Restricted for:			
Capital	6,228,656	-	6,228,656
Pension asset	6,108,187	279,427	6,387,614
Other purposes	1,021,161	-	1,021,161
Unrestricted	7,847,338	6,817,947	14,665,284
Total net position	<u>\$ 221,772,955</u>	<u>\$ 14,519,440</u>	<u>\$ 236,292,395</u>

**Statement of Activities**  
**For the Year Ended December 31, 2022**

					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	\$ 5,242,460	\$ 2,334,837	\$ 834,960	\$ -	\$ (2,072,663)	\$ -	\$ (2,072,663)
Public safety	13,334,871	924,913	1,324,486	-	(11,085,472)	-	(11,085,472)
Transportation	2,972,439	126,498	433,688	682,486	(1,729,767)	-	(1,729,767)
Natural & economic environment	978,726	9,323	-	-	(969,403)	-	(969,403)
Social services	34,322	-	-	-	(34,322)	-	(34,322)
Culture and recreation	2,340,078	1,099,845	9,653	-	(1,230,580)	-	(1,230,580)
Interest on long-term debt	150,833	-	-	-	(150,833)	-	(150,833)
Total governmental activities	25,053,730	4,495,416	2,602,788	682,486	(17,273,040)	-	(17,273,040)
Business-type activities:							
Surface water	2,750,601	3,987,512	-	127,375	-	1,364,285	1,364,285
Total business-type activities	2,750,601	3,987,512	-	127,375	-	1,364,285	1,364,285
Total primary government	\$ 27,804,331	\$ 8,482,928	\$ 2,602,788	\$ 809,861	(17,273,040)	1,364,285	(15,908,755)
General revenues:							
Taxes:							
Property taxes					7,683,928	-	7,683,928
Sales taxes					4,033,133	-	4,033,133
Utility taxes					2,555,271	-	2,555,271
Excise taxes					235,938	-	235,938
Other taxes					3,143,021	-	3,143,021
Interest and investment earnings					98,008	15,863	113,871
Gain on disposal of capital assets					86,227	-	86,227
Miscellaneous revenue					759,986	75	760,061
Transfers					87,450	(87,450)	(0)
Total general revenues & transfers					18,682,960	(71,512)	18,611,448
Change in net position					1,409,920	1,292,773	2,702,693
Net position - beginning					220,363,035	13,226,667	233,589,702
Net position - ending					\$ 221,772,955	\$ 14,519,440	\$ 236,292,395

**Balance Sheet**  
**Governmental Funds**  
**December 31, 2022**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 14,011,736	\$ 5,358,318	\$ 2,090	\$ 19,372,144
Prepaid expenses	144,656	-	-	144,656
Receivables (net of allowance):				
Taxes	1,284,522	217,576	-	1,502,098
Customers	1,823,581	13,506	-	1,837,087
Grants	50,793	51,656	-	102,450
Total assets	<u>\$ 17,315,289</u>	<u>\$ 5,641,056</u>	<u>\$ 2,090</u>	<u>\$ 22,958,435</u>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u></b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 777,819	\$ 36,338	\$ -	\$ 814,157
Wages payable	624,808	-	-	624,808
Unearned revenue	5,803,732	-	-	5,803,732
Deposits & retainage payable	776,626	-	-	776,626
Interfund loan payable	-	-	-	-
Total liabilities	<u>7,982,985</u>	<u>36,338</u>	<u>-</u>	<u>8,019,323</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - receivables	1,153,170	65,162	-	1,218,332
<b>FUND BALANCES</b>				
<b>Nonspendable for:</b>				
Prepays	144,656	-	-	144,656
<b>Restricted for:</b>				
Public Safety	17,890	-	-	17,890
Transportation	689,099	5,267,326	-	5,956,425
Culture and recreation	71,000	272,231	-	343,231
Natural & economic development	379,396	-	-	379,396
General obligation debt	-	-	2,090	2,090
<b>Committed for:</b>				
General government	1,136,703	-	-	1,136,703
Culture and recreation	1,728	-	-	1,728
<b>Assigned for:</b>				
General government	2,798,242	-	-	2,798,242
Unassigned	2,940,420	-	-	2,940,420
Total fund balances	<u>8,179,134</u>	<u>5,539,556</u>	<u>2,090</u>	<u>13,720,780</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,315,289</u>	<u>\$ 5,641,056</u>	<u>\$ 2,090</u>	<u>\$ 22,958,435</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, 2022

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

Fund balances of governmental funds:	\$ 13,720,780
Capital assets are not financial resources, and therefore not reported in the fund financial statements	
Capital assets net of depreciation	206,214,863
Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	
Net pension assets	\$ 5,640,761
Investment in joint venture	545,631
	6,186,392
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	3,713,955
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	1,218,332
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	(8,336,858)
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.	(3,256,701)
Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. Current assets and liabilities, not included in capital asset and pension related balances above, are reported on the government-wide financial statements	2,345,121
The internal service fund chargeback to the enterprise fund is not reported in the governmental funds, but is reported on the government-wide financial statements.	(32,930)
Net position of governmental activities	\$ 221,772,955

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2022**

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 15,317,320	\$ 2,429,565	\$ -	\$ 17,746,884
Licenses and permits	1,983,300	-	-	1,983,300
Intergovernmental revenues	2,420,971	921,213	-	3,342,184
Charges for services	1,268,322	123,232	-	1,391,555
Fees and penalties	184,951	-	-	184,951
Miscellaneous	1,357,684	16,885	789	1,375,357
<b>Total revenues</b>	<b>22,532,549</b>	<b>3,490,894</b>	<b>789</b>	<b>26,024,232</b>
<b>Expenditures</b>				
Current:				
General government	5,094,418	-	-	5,094,418
Public safety	11,802,856	-	-	11,802,856
Transportation	1,209,272	1,312,361	-	2,521,633
Natural & economic environment	1,156,305	-	-	1,156,305
Social services	34,322	-	-	34,322
Culture and recreation	1,695,767	-	-	1,695,767
Capital outlay:				
General government	255,769	-	-	255,769
Transportation	-	1,621,311	-	1,621,311
Culture and recreation	-	6,000	-	6,000
Debt service:				
Principal	5,755	-	730,000	735,755
Interest and other charges	594	-	151,699	152,293
<b>Total expenditures</b>	<b>21,255,057</b>	<b>2,939,673</b>	<b>881,699</b>	<b>25,076,429</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,277,492</b>	<b>551,222</b>	<b>(880,910)</b>	<b>947,803</b>
<b>Other Financing Sources (Uses)</b>				
Leases (lessee)	49,658	-	-	49,658
Transfers in	(0)	1,013,701	883,000	1,896,701
Insurance recovery	13,085	-	-	13,085
Transfers out	(1,194,001)	(883,000)	-	(2,077,001)
<b>Total other financing sources and uses</b>	<b>(1,131,258)</b>	<b>130,701</b>	<b>883,000</b>	<b>(117,557)</b>
<b>Net change in fund balances</b>	<b>146,233</b>	<b>681,923</b>	<b>2,090</b>	<b>830,246</b>
<b>Fund balances - beginning</b>	<b>8,032,900</b>	<b>4,857,634</b>	<b>-</b>	<b>12,890,534</b>
<b>Fund balances - ending</b>	<b>\$ 8,179,134</b>	<b>\$ 5,539,556</b>	<b>\$ 2,090</b>	<b>\$ 13,720,780</b>

## 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, 2022

Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	830,246
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	\$	1,420,170
Depreciation expense	(1,724,671)	(304,501)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Increases in deferred inflows	92,951	
Increase in intergovernmental revenue-pension special funding situation	220,973	
Decrease in joint venture equity interest	(289,920)	24,004
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	730,000	
Increases in leases payable	(49,658)	
Decreases in leases payable	5,755	686,097
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.		
Decreases in governmental fund compensated absences payable	(212,804)	
Decreases in governmental fund interest payable	1,460	
Increase in internal balances	53,661	
Decrease in pension expense	12,573	(145,110)
Loss on transfer of capital asset		-
The net revenue of certain activities of internal service funds is reported on the statement of activities		319,185
Change in net position - governmental activities	\$	1,409,920

**Statement of Net Position**  
**Proprietary Funds**  
**December 31, 2022**

	Surface Water Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,589,596	\$ 2,604,958
Receivables (net of allowances):		
Customers	597,421	-
Grants receivable	69,130	4,143
Prepaid expenses	1,000	2,713
Total current assets	<u>7,257,147</u>	<u>2,611,814</u>
Noncurrent assets:		
Net pension asset	285,484	44,938
Capital assets not being depreciated		
Land	150,000	-
Right of way easements	83,679	-
Construction in progress	535,707	-
Capital assets net of accumulated depreciation:		
Buildings and structures	-	6,015
Other improvements	5,413,450	320,592
Machinery and equipment	1,239,230	2,499,398
Total noncurrent assets	<u>7,707,550</u>	<u>2,870,942</u>
Total assets	<u>14,964,697</u>	<u>5,482,756</u>
<b>Deferred Outflows of Resources</b>		
Pension obligations	262,284	65,968
Total deferred outflows	<u>262,284</u>	<u>65,968</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	142,084	252,331
Wages payable	52,408	14,363
Compensated absences - current portion	81,827	15,279
Total current liabilities	<u>276,319</u>	<u>281,972</u>
Noncurrent liabilities:		
Compensated absences	9,092	15,274
Net pension liabilities	151,345	39,650
Total noncurrent liabilities	<u>160,437</u>	<u>54,924</u>
Total liabilities	<u>436,756</u>	<u>336,896</u>
<b>Deferred Inflows of Resources</b>		
Pension obligations	303,715	49,915
Total deferred inflows	<u>303,715</u>	<u>49,915</u>
<b>Net Position</b>		
Investment in capital assets	7,422,066	2,826,004
Restricted - pension asset	279,427	43,343
Unrestricted	6,785,017	2,292,565
Total net position	<u>\$ 14,486,510</u>	<u>\$ 5,161,912</u>
Adjustment to reflect the consolidation of internal service funds related to enterprise funds	32,930	
Net position of business-type activities	<u>\$ 14,519,440</u>	

**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2022**

	Surface Water Fund	Internal Service Funds
Operating Revenues		
Charges for services	3,987,512	1,350,788
Total operating revenues	3,987,512	1,350,788
Operating Expenses		
Depreciation	472,904	402,611
Salaries and wages	942,620	224,817
Personnel benefits	303,537	85,086
Supplies	140,562	143,727
Services	837,319	535,571
Total operating expenses	2,696,941	1,391,812
Operating income (loss)	1,290,571	(41,024)
Nonoperating Revenues (Expenses)		
Intergovernmental capital grants	127,375	-
Interest revenue	15,863	6,231
Miscellaneous revenue	75	-
Gain (loss) on disposal of capital assets	-	86,227
Total nonoperating revenues (expenses)	143,313	92,458
Income (loss) before transfers	1,433,884	51,435
Transfers out	(87,450)	-
Transfers in	-	267,750
Change in net position	1,346,434	319,185
Total Net position - beginning	13,140,077	4,842,728
Total Net position - ending	\$ 14,486,510	\$ 5,161,912
Adjustment to reflect the consolidation of internal service funds related to enterprise funds	(53,661)	
Adjusted Change in Net Position	\$ 1,292,773	

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2022**

	Surface Water Fund	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers and users	\$ 4,022,029	\$ 1,350,788
Cash payments to employees and retirees	(1,395,713)	(327,676)
Cash payments to suppliers	(1,118,097)	(477,518)
Net cash provided (used) by operating activities	<u>1,508,219</u>	<u>545,594</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Non-operating miscellaneous revenue	75	22,242
Operating subsidies and transfers from other funds	-	267,750
Operating subsidies and transfers to other funds	(87,450)	-
Net cash provided (used) by noncapital financing activities	<u>(87,375)</u>	<u>289,992</u>
<b>Cash Flows From Capital Financing Activities</b>		
Proceeds from capital grants	297,359	86,227
Acquisition and construction of capital assets	(479,860)	(474,414)
Net cash provided (used) by capital financing activities	<u>(182,501)</u>	<u>(388,186)</u>
<b>Cash Flows From Investing Activities</b>		
Investment sales and income	15,863	6,231
Net cash provided (used) by investing activities	<u>15,863</u>	<u>6,231</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,254,206	453,631
<b>Cash and cash equivalents, January 1</b>	<u>5,335,390</u>	<u>2,151,327</u>
<b>Cash and cash equivalents, December 31</b>	<u><u>\$ 6,589,596</u></u>	<u><u>\$ 2,604,958</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 1,290,571	\$ (41,024)
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:		
Depreciation	472,904	402,611
(Increase) decrease in customer receivables	34,517	-
(Increase) decrease in prepaid expenses	7,772	16,545
Increase (decrease) in accounts payable and deposits	(148,584)	185,235
Increase (decrease) in employee and benefit liabilities	(1,408)	4,856
Increase (decrease) in compensated absences	(39,395)	5,851
Total adjustments	<u>217,648</u>	<u>586,618</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,508,219</u></u>	<u><u>\$ 545,594</u></u>
<b>Non-cash activities:</b>		
Depreciation of capital assets	472,904	402,611
Total non-cash activities	<u><u>\$ 472,904</u></u>	<u><u>\$ 402,611</u></u>

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**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**December 31, 2022**

	Custodial Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 109,628
Receivables (net of allowances):	
Taxes receivable	1,022
Total assets	<u>110,649</u>
Liabilities	
Current liabilities:	
Accounts payable	79,752
Due to other governments	<u>19,848</u>
Total liabilities	<u>99,600</u>
Net Position	
Restricted for:	
Individuals, organizations, and other governments	11,049
Total net position	<u><u>\$ 11,049</u></u>

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

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**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended December 31, 2022**

	Custodial Fund
Additions	
Tax collections for other governments	\$ 212,570
Total additions	<u>212,570</u>
Deductions	
Payment of taxes to other governments	<u>213,568</u>
Total operating expenses	<u>213,568</u>
Net increase (decrease) in fiduciary net position	<u>(998)</u>
Net position - beginning	<u>12,047</u>
Net position - ending	<u><u>\$ 11,049</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, 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: City Reserve Fund, American Rescue Plan Fund, Transportation Benefit District Fund, Drug Enforcement Fund, Waterfront Parking Fund, Street Fund, Hotel/Motel Lodging Tax 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 Real Estate Excise Tax I 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 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 a custodial 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:

Asset Type	Useful Life (Years)
Buildings & Improvements	5 – 100
Storm Drainage Systems	6 – 75
Street Systems	15 – 51
Park Facilities & Streetscape	30
Streetlights & Traffic Control Devices	40
Equipment	3 – 20
Furniture & 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.

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

9. Long-Term Debt (Note 10)

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

10. Deferred Inflows and Outflows of Resources

Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available. See Note 1, section E8 above, as well as Note 6, for deferred inflows and outflows of resources related to pension activities.

11. Restricted Assets and Liabilities

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

12. Fund Balances

Fund balances are reported in five classifications: nonspendable, restricted, committed, assigned, or unassigned.

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. The order of use of unrestricted

resources (committed, assigned, or unassigned) is subject to determination based on the nature and circumstances of the specific needs at the time and the funds involved.

### 13. Leases

#### Lessee

The City is a lessee for noncancelable leases. The City recognizes lease liabilities and intangible right-to-use lease assets in the government-wide and proprietary fund financial statements when lease liabilities have an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis over its useful life.

Governmental funds recognize a capital outlay and other financing source at the commencement of a new lease. Lease payments in governmental funds are reported as debt service principal and debt service interest expenditures.

Key estimates and judgements include how the City determines the discount rate it uses to discount expected lease payments to present value, lease term, and lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided the City generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

#### Lessor

The City is a lessor for noncancelable leases. The City recognizes lease receivables and related deferred inflows of resources in the government-wide and fund financial statements, when the initial, individual receivable is \$5,000 or more.

At the commencement of a lease the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred

inflow of resources is recognized as revenue over the life of the lease term using the straight-line basis.

Key estimates and judgements include how the City determines the discount rate it uses to discount the expected lease payments to present value, lease terms and lease payments.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its leases, and will remeasure the lease receivables and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

## 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 on December 31, 2022, was \$3,220. The carrying amount of the City's deposits in the bank was \$28,673,106, and \$109,627 of that amount was custodial fund deposits. Cash and cash equivalents on the Statement of Net Position include the non-custodial portion of bank deposits, \$28,563,478 and petty cash of \$3,220, for a total of \$28,566,699.

#### 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, 2022, 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, 2022 the City had the following investments:

Investment Type	Investment Maturities		
	Fair Value	Less than 1 year	1 - 5 years
U.S. Government Agency Securities	\$ -	\$ -	\$ -
Snohomish County Local Investment Pool	5,078,763	5,078,763	-
State of Washington Local Government Investment Pool	57	57	-
<b>TOTAL</b>	<b>\$ 5,078,820</b>	<b>\$ 5,078,820</b>	<b>\$ -</b>

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 and the pool is not rated and not registered with the SEC. 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, 2022, the City had the following investments measured at fair value:

	Totals as of 12/31/2022	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
<b>Investments by fair market value</b>				
Snohomish County Local Investment Pool	\$ 5,078,763		\$ 5,078,763	\$ -
<i>Total investments measured at fair market value</i>	<u>\$ 5,078,763</u>		<u>\$ 5,078,763</u>	
<b>Investments measured at amortized cost</b>				
State of Washington Local Government Investment Pool	57			
<i>Total investments measured at amortized cost</i>	<u>57</u>			
 <b>Total Investments in Statement of Net Position</b>	 <u><u>\$ 5,078,820</u></u>			

## 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 principle, 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 2022 was \$.96 per \$1,000 on an assessed valuation of \$6,009,246,123 for a total regular levy of \$5,763,077. The City's permanent Emergency Medical Services (EMS) levy for 2022 was \$0.33 per \$1,000 on an assessed valuation of \$6,009,246,123 for a total EMS levy of \$1,992,384, resulting in a total levy rate of \$1.29 and total levy of \$7,755,461. 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, 2022, was as follows:

	Balance 1/1/2022	Increases	Decreases	Balance 12/31/2022
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 43,725,242	\$ -	\$ -	\$ 43,725,242
Right of way	10,989,210	-	-	10,989,210
Art	287,624	-	-	287,624
Infrastructure - streets	120,733,861	1,476,875	-	122,210,736
Construction in progress	1,780,841	797,096	(1,270,431)	1,307,506
Total capital assets, not being depreciated	177,516,779	2,273,971	(1,270,431)	178,520,318
Capital assets, being depreciated				
Buildings	27,942,822	-	-	27,942,822
Other improvements	12,879,116	464,755	-	13,343,871
Machinery and equipment	10,985,234	376,630	(207,516)	11,154,348
Infrastructure	12,810,968	-	-	12,810,968
Right-to-use lease assets*	8,347	49,658	-	58,005
Total capital assets being depreciated	64,626,488	891,043	(207,516)	65,310,015
Less accumulated depreciation for				
Buildings	(9,613,852)	(551,039)	-	(10,164,891)
Other improvements	(7,881,944)	(493,097)	-	(8,375,041)
Machinery and equipment	(8,530,459)	(509,066)	207,516	(8,832,009)
Infrastructure	(9,669,448)	(568,053)	-	(10,237,501)
Right-to-use lease assets	-	(6,028)	-	(6,028)
Total accumulated depreciation	(35,695,704)	(2,127,282)	207,516	(37,615,470)
Total capital assets, being depreciated, net	28,930,784	(1,236,239)	-	27,694,545
Governmental activities, capital assets, net	\$ 206,447,563	\$ 1,037,731	\$ (1,270,431)	\$ 206,214,863

\*Beginning balance re-stated

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

Governmental activities:	
General government	221,696
Public safety	500,984
Transportation	552,494
Natural and economic environment	118,071
Culture and recreation	734,037
Total depreciation - governmental activities	<u>2,127,282</u>

**B. Capital Assets – Business-Type Activities**

	Balance 1/1/2022	Increases	Decreases	Balance 12/31/2022
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	53,403	30,276	-	83,679
Construction in progress	323,736	439,294	(160,799)	602,231
Total capital assets, not being depreciated	<u>527,139</u>	<u>469,569</u>	<u>(160,799)</u>	<u>835,910</u>
Capital assets, being depreciated				
Other improvements	10,432,631	160,799	-	10,593,429
Machinery and equipment	1,731,374	-	-	1,731,374
Total capital assets being depreciated	<u>12,164,005</u>	<u>160,799</u>	<u>-</u>	<u>12,324,804</u>
Less accumulated depreciation for				
Other improvements	(4,876,982)	(369,521)	-	(5,246,503)
Machinery and equipment	(388,761)	(103,383)	-	(492,144)
Total accumulated depreciation	<u>(5,265,743)</u>	<u>(472,904)</u>	<u>-</u>	<u>(5,738,647)</u>
Total capital assets, being depreciated, net	<u>6,898,262</u>	<u>(312,105)</u>	<u>-</u>	<u>6,586,157</u>
Business-type activities, capital assets, net	<u>\$ 7,425,401</u>	<u>\$ 157,464</u>	<u>\$ (160,799)</u>	<u>\$ 7,422,066</u>

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

Business-type activities:	
Surface Water	<u>\$ 472,904</u>
Total depreciation - business-type activities	<u>\$ 472,904</u>

**Note 6 - Pension Plans**

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension assets	\$5,926,245
Pension liabilities	\$(805,350)
Deferred outflows of resources	\$3,976,240

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Deferred inflows of resources	\$(3,560,416)
Pension expenses / expenditure	\$672,063

**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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

#### **PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

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

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

#### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
<b>January – August 2022</b>		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>
<b>September – December 2022</b>		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.00%</b>

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

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

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

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

#### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.25%</b>	<b>6.36%</b>

September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.39%</b>	<b>6.36%</b>

The City's actual PERS plan contributions were \$175,066 to PERS Plan 1 and \$296,727 to PERS Plan 2/3 for the year ended December 31, 2022.

#### **LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF)**

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

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

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

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

#### Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2022. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

#### Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate includes an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2022.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – December 2022		
Local Government	5.12%	8.53%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.30%</b>	<b>8.53%</b>

The City's actual contributions to the plan were \$349,482 for the year ended December 31, 2022.

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, 2022, the state contributed \$81,388,085 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$220,973.

#### **ACTUARIAL ASSUMPTIONS**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 Actuarial Valuation Report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. The OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of 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 their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVER. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. Those factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is the result of recommendations from OSA's biennial economic experience study.

#### **DISCOUNT RATE**

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

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 7.00 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 7.0% percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) 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, 2022, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	<b>100%</b>	

#### **SENSITIVITY OF THE NET PENSION LIABILITY/(ASSET)**

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
PERS 1	\$ 1,075,937	\$ 805,350	\$ 569,192
PERS 2/3	1,647,013	(1,398,581)	(3,900,729)
LEOFF 1	(43,565)	(49,713)	(55,044)
LEOFF 2	(206,205)	(4,477,951)	(7,974,010)

#### **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, 2022, the City its proportionate share of the net pension liabilities (assets) as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 805,350
PERS 2/3	(1,398,581)
LEOFF 1	(49,713)
LEOFF 2	(4,477,951)

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:

	<b>LEOFF 1 Asset</b>	<b>LEOFF 2 Asset</b>
Employer's proportionate share	\$ (49,713)	\$ (4,477,951)
State's proportionate share of the net pension asset associated with the employer	(336,258)	(2,900,719)
<b>TOTAL</b>	<b>\$ (385,971)</b>	<b>\$ (7,378,670)</b>

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

	<b>Proportionate Share 6/30/21</b>	<b>Proportionate Share 6/30/22</b>	<b>Change in Proportion</b>
PERS 1	0.030074%	0.028924%	-0.001150%
PERS 2/3	0.038641%	0.037710%	-0.000931%
LEOFF 1	0.003142%	0.001733%	-0.001409%
LEOFF 2	0.160432%	0.164770%	0.004338%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2022. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2022, 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 2022, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 61 percent of employer contributions.

#### **PENSION EXPENSE**

For the year ended December 31, 2022, the City recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 341,262
PERS 2/3	(465,336)
LEOFF 1	31,238
LEOFF 2	764,900
<b>TOTAL</b>	<b>\$ 672,063</b>

#### **DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	--	\$ (133,470)
Contributions subsequent to the measurement date	\$ 87,926	--
<b>TOTAL</b>	<b>\$ 87,926</b>	<b>\$ (133,470)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 346,536	\$ (31,600)
Net difference between projected and actual investment earnings on pension plan investments	--	(1,033,981)
Changes of assumptions	779,516	(204,105)
Changes in proportion and differences between contributions and proportionate share of contributions	57,402	(76,859)
Contributions subsequent to the measurement date	147,398	--
<b>TOTAL</b>	<b>\$ 1,330,853</b>	<b>\$ (1,346,606)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	--	\$ 6,207
<b>TOTAL</b>	--	\$ 6,207

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,064,035	\$ (41,547)
Net difference between projected and actual investment earnings on pension plan investments	--	(1,499,390)
Changes of assumptions	1,134,392	(389,907)
Changes in proportion and differences between contributions and proportionate share of contributions	179,519	(143,288)
Contributions subsequent to the measurement date	179,516	--
<b>TOTAL</b>	\$ 2,257,461	\$ (2,074,132)

<b>ALL PENSION PLANS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,410,571	\$ (73,208)
Net difference between projected and actual investment earnings on pension plan investments	--	(2,673,049)
Changes of assumptions	1,913,908	(594,012)
Changes in proportion and differences between contributions and proportionate share of contributions	236,921	(220,147)
Contributions subsequent to the measurement date	414,841	--
<b>TOTAL</b>	\$ 3,976,240	\$ (3,560,416 )

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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2023	\$ (56,482)	\$ (324,059)	\$ (2,629)	\$ (462,330)
2024	(51,300)	(285,216)	(2,380)	(399,619)
2025	(64,354)	(358,688)	(2,976)	(534,666)

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2026	38,666	471,130	1,778	655,338
2027	--	168,260	--	191,239
Thereafter	--	165,421	--	853,850
<b>TOTAL</b>	<b>\$ (133,470)</b>	<b>\$ (163,152)</b>	<b>\$ (6,207)</b>	<b>\$ 303,813</b>

## NOTE 7 - 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 166 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides members with a \$2 million incident limit and a \$10 million pool aggregate subject to a \$100,000 per incident member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown 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, 2022

#### **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, 2022:

	<b>2021</b>	<b>2022</b>
Liability – beginning	\$ 0	\$ 0
Claims incurred	21,911	923
Claims payments	21,911	923
Adjustments		
Liability - ending	<u>\$ 0</u>	<u>\$ 0</u>

## **Note 8 - Leases**

#### **Operating lease**

The City leases copy equipment under two separate 60-month noncancelable operating leases. The City paid \$5,755 in principal and \$594 in interest on these leases in 2022.

Leased assets for the year ended December 31, 2022 are as follows:

<u>Description</u>	<u>Governmental Activities</u>			
	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Copier Equipment	8,347	49,658	-	58,004
Accumulated Depreciation	-	(6,028)	-	(6,028)
	<u>8,347</u>	<u>43,630</u>	<u>-</u>	<u>51,976</u>

Principal and interest payments to maturity are as follows:

<u>Year Ending 12/31</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	11,395	1,147	12,542
2024	11,666	876	12,542
2025	11,945	597	12,542
2026	11,105	314	11,419
2027	6,139	55	6,194
Total	<u>52,250</u>	<u>2,989</u>	<u>55,239</u>

## Note 9 - 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, 2022, the City had the following general obligation bonds outstanding:

	Issue Date	Maturity Date	Average Coupon Interest Rate	Issuance Amount	Beginning Balance 1/1/2022	Additions	Deletions	Outstanding Balance at 12/31/2022
<b>GENERAL OBLIGATION BONDS</b>								
2017 LTGO Advanced Refunding Bonds	02/19/2017	12/01/2029	2.40%	\$ 7,980,000	\$ 6,325,000	\$ -	\$ 730,000	\$ 5,595,000
<b>Total General Obligation Bonds</b>				<u>\$ 7,980,000</u>	<u>\$ 6,325,000</u>	<u>\$ -</u>	<u>\$ 730,000</u>	<u>\$ 5,595,000</u>

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

<b>Year Ending December 31</b>	<b>Principal</b>	<b>Interest</b>
2023	\$ 745,000	\$ 134,280
2024	760,000	116,400
2025	780,000	98,160
2026	800,000	79,440
2027	815,000	60,240
2028-2029	1,695,000	61,200
<b>Total</b>	<b>\$ 5,595,000</b>	<b>\$ 549,720</b>

## Note 10 - Construction and Other Significant Commitments

The City had the following significant contractual obligations on construction projects at December 31, 2022:

Contracting Entity	Project Name	Balance
Island County Lane Striping	2022 City-wide lane pavement markings	\$ 32,121
Perteet Engineering	60th Ave. Drainage Repairs	47,000
Osborn Consulting, Inc.	SW Pipe Inspection	73,328
Perteet Engineering	2022 Annual Pavement Preservation	76,873
WSB Excavation & Utilities	2021 SW Infrastructure Repairs	78,480
Perteet Engineering	Wastewater Treatment Plant Erosion Repair	94,229
MWWD	Annual Pavement Preservation	100,000
Perteet Engineering	Annual Pavement Preservation	143,170
New Restoration & Recovery Services, LLC	SW Pipe Inspection	182,100
Quilceda Paving & Construction	2022 Annual Pavement Preservation	211,900
Tuttle Engineering & Management	61st Culvert Construction	233,843
Pace Engineers, Inc.	Chennault Beach Drainage	327,554
VSS International, Inc.	2022 Annual Pavement Preservation	406,325
Altaterra Consulting, LLC	2024 SW Comp Water Management	530,000
OMA Construction	61st Culvert Construction	868,648
		<b>\$ 3,405,571</b>

## Note 11 - Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2022:

	Balance 1/1/2022	Additions	Reductions	Balance 12/31/2022	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 6,325,000	\$ -	\$ (730,000)	\$ 5,595,000	\$ 745,000
Compensated absences	1,805,759	218,655	-	2,024,414	830,510
Pension obligations	295,447	358,558	-	654,005	-
Leases*	8,347	49,658	(5,755)	52,250	11,395
Total governmental activities	<u>\$ 8,434,553</u>	<u>\$ 626,871</u>	<u>\$ (735,755)</u>	<u>\$ 8,325,669</u>	<u>\$ 1,586,905</u>
Business-type activities:					
Compensated absences	130,315	-	(39,395)	90,920	81,827
Pension obligations	71,827	79,517	-	151,344	-
Total governmental activities	<u>\$ 202,142</u>	<u>\$ 79,517</u>	<u>\$ (39,395)</u>	<u>\$ 242,264</u>	<u>\$ 81,827</u>

\*Beginning balance re-stated

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 \$30,553 of internal service funds compensated absences and \$39,650 of internal service funds pension obligations are included in the above amounts.

## **Note 12 - 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. A pending lawsuit regarding stormwater discharge with alleged damage to private property and any potential liability will be partially covered by the City's insurance. There is no estimated exact loss amount available.

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 13 - 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, 2022 were as follows:

<b>Transfers Out</b>	<b>Transfers In</b>			<b>Total</b>
	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Facility Renewal Fund</b>	
General Fund	\$ -	\$ 936,701	\$ 257,300	\$ 1,194,001
Capital Projects Fund	883,000	-	-	883,000
Surface Water Fund	-	77,000	10,450	87,450
<b>Totals</b>	<b>\$ 883,000</b>	<b>\$ 1,013,701</b>	<b>\$ 267,750</b>	<b>\$ 2,164,451</b>

The General Fund transferred \$257,300 to the Facility Renewal Fund to fund various equipment and vehicle replacements. The General Fund transferred \$936,701 to the Capital Projects Fund for 2022 transportation improvements.

The Capital Projects Fund also transferred \$883,000 to the Debt Service Fund for general obligation debt payments.

The transfer of \$10,450 from the Surface Water Fund to the Facility Renewal Fund was for partial payment on various equipment purchases.

## Note 14 - 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 \$545,631 on December 31, 2022.

Snohomish County 911's 2021 operating budget was \$24,429,390, operating revenues received were \$25,450,056 and total operating expenditures were \$23,395,721.

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

#### **Alliance for Housing Affordability**

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 \$2,241. 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 15 – Accounting and Reporting Changes**

In 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize

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a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

## **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, 2020 and 2022 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 2016, 2018, 2020, & 2022**

Condition Rating	2016		2018		2020		2022	
	Miles	Percentage	Miles	Percentage	Miles	Percentage	Miles	Percentage
Excellent	-	0.0%	6.5	10.4%	10.9	17.5%	3.9	6.3%
Very Good	51.8	86.8%	46.4	74.4%	40.6	65.3%	45.9	73.8%
Good	5.2	8.7%	7.2	11.5%	9.1	14.6%	10.2	16.4%
Poor	2.4	4.0%	2.0	3.2%	1.4	2.3%	2.1	3.4%
Very Poor	0.3	0.5%	0.3	0.5%	0.2	0.3%	0.3	0.5%
<b>Total</b>	<b>59.7</b>		<b>62.4</b>		<b>62.2</b>		<b>62.4</b>	

The City's goal is to maintain 80% of the City-wide pavement system at a condition level of "Very Good" and 100% of the City-wide pavement system at a condition level of "Good" or better. The latest 2022 report shows that the 80% goal has been achieved with an actual result of 80.1% all roads at the condition level of "Very Good" or better.

The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There are two State highways (SR 525 and SR 526) which are considered arterial streets within the City limits: these pavement surfaces are maintained by Washington State Department of Transportation (WSDOT). The entire pavement system within the City of Mukilteo is composed of approximately 62.4 miles of paved surface and is divided into 412 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**

<b>Functional Classification</b>	<b>Centerline Miles</b>
Arterial	2.3
Urban Minor Arterial	11.5
Collector	47.8
Residential/Local	0.8
<b>Total</b>	<b>62.4</b>

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

The City's Pavement Management Program is designed with focusing on a cost-effective, "Best-first" approach. The reasoning behind this philosophy is that it is better to treat streets with lower-cost, preventative maintenance treatments, such as slurry seals, chip seals, and crack seals, and extend their life cycle, before the street condition deteriorates to a state where it requires more costly rehabilitation and reconstruction treatments. Generally, paved streets spend about three-quarters of their lifecycle in Very Good to 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 2017 to 2022. Beginning balances (Planned) are increasing year-over-year as it includes unspent funds that are carried forward from prior years. Projects were not completed as planned due to staff shortages.

<b>Year</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Planned</b>	\$ 2,691,722.00	\$ 2,469,352.00	\$ 1,624,261.00	\$ 1,706,500.00	\$ 3,244,600.00	\$ 1,045,000.00
<b>Actual</b>	<u>778,589</u>	<u>189,151</u>	<u>266,216</u>	<u>819,785</u>	<u>907,801</u>	<u>722,108</u>
<b>Variance</b>	\$ 1,913,133.00	\$ 2,280,201.00	\$ 1,358,045.00	\$ 886,715.00	\$ 2,336,799.00	\$ 322,892.00
	71.07%	92.34%	83.61%	51.96%	72.02%	30.90%

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**As of June 30, 2022**  
**Last 9 Fiscal Years \***

<b>PERS 1 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability (asset)	0.028924%	0.030074%	0.029263%	0.030327%	0.03333%	0.03197%	0.03279%	0.03352%	0.031653%
Employer's proportionate share of the net pension liability (asset)	\$ 805,350	\$ 367,274	\$ 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	\$ 4,710,550	\$ 4,621,606	\$ 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	17.10%	7.95%	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	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
<b>PERS 2/3 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability (asset)	0.037710%	0.038641%	0.038083%	0.039156%	0.04279%	0.03965%	0.04064%	0.039290%	0.036539%
Employer's proportionate share of the net pension liability (asset)	\$ (1,389,581)	\$ (3,849,265)	\$ 487,060	\$ 380,338	\$ 730,533	\$ 1,377,752	\$ 2,046,192	\$ 1,403,854	\$ 738,585
Employer's covered payroll	\$ 4,710,550	\$ 4,621,606	\$ 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	-29.50%	-83.29%	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	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%
<b>LEOFF 1 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability (asset)	0.001733%	0.003142%	0.003066%	0.003001%	0.00295%	0.00376%	0.00470%	0.004645%	0.004607%
Employer's proportionate share of the net pension liability (asset)	\$ (49,713)	\$ (107,631)	\$ (57,902)	\$ (59,318)	\$ (53,521)	\$ (57,063)	\$ (48,382)	\$ (55,983)	\$ (55,873)
State's proportionate share of the net pension liability (asset) associated with the employer	\$ (336,258)	\$ (728,013)	\$ (391,648)	\$ (401,225)	\$ (362,015)	\$ (385,973)	\$ 854,936	\$ 989,419	\$ 1,092,391
TOTAL	\$ (385,971)	\$ (835,644)	\$ (449,550)	\$ (460,543)	\$ (415,536)	\$ (443,036)	\$ 806,554	\$ 933,436	\$ 1,036,518
Employer's covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	169.62%	187.45%	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%
<b>LEOFF 2 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Employer's proportion of the net pension liability (asset)	0.164770%	0.160432%	0.165824%	0.166120%	0.173910%	0.169320%	0.175090%	0.176909%	0.185026%
Employer's proportionate share of the net pension liability (asset)	\$ (4,477,951)	\$ (9,318,555)	\$ (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	\$ (2,900,719)	\$ (6,011,485)	#REF!	\$ (2,520,215)	\$ (2,286,030)	\$ (1,524,105)	\$ (663,907)	\$ (1,202,242)	\$ -
TOTAL	\$ (7,378,670)	\$ (15,330,040)	#REF!	\$ (6,368,659)	\$ (5,816,681)	\$ (3,873,648)	\$ (1,682,283)	\$ (3,020,213)	\$ (2,455,375)
Employer's covered payroll	\$ 6,614,012	\$ 6,200,708	\$ 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	-67.70%	-150.28%	-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)	116.09%	142.00%	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, 2022**  
**Last 9 Fiscal Years \***

<b>PERS 1 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily or contractually required contributions	\$ 175,066	\$ 204,556	\$ 216,605	\$ 206,644	\$ 218,387	\$ 215,055	\$ 186,362	\$ 158,036	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (175,066)</u>	<u>\$ (204,556)</u>	<u>\$ (216,605)</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>	<u>-</u>	<u>-</u>
Covered payroll	\$ 4,662,887	\$ 4,714,694	\$ 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	3.75%	4.34%	4.79%	6.19%	6.33%	5.37%	4.86%	4.51%	16.72%
<b>PERS 2/3 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily or contractually required contributions	\$ 296,727	\$ 339,724	\$ 357,764	\$ 345,250	\$ 323,537	\$ 281,188	\$ 253,930	\$ 209,660	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (296,727)</u>	<u>\$ (339,724)</u>	<u>\$ (357,764)</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>	<u>-</u>	<u>-</u>
Covered payroll	\$ 4,662,887	\$ 4,714,694	\$ 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	6.36%	7.21%	7.92%	10.34%	9.38%	7.08%	6.72%	6.13%	17.59%
<b>LEOFF 1 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
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>	<u>\$ -</u>	<u>\$ -</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<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	N/A	N/A
<b>LEOFF 2 PLAN</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily or contractually required contributions	\$ 349,482	\$ 333,974	\$ 318,753	\$ 319,510	\$ 302,830	\$ 283,092	\$ 271,069	\$ 263,284	\$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	<u>\$ (349,482)</u>	<u>\$ (333,974)</u>	<u>\$ (318,753)</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>	<u>-</u>	<u>-</u>
Covered payroll	\$ 6,781,140	\$ 6,474,035	\$ 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	5.15%	5.16%	5.16%	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.

## REQUIRED SUPPLEMENTARY INFORMATION

### General Fund

#### Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary and Actual For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 12,126,625	\$ 12,126,625	\$ 12,625,012	\$ 498,387
Licenses and permits	1,813,500	1,813,500	1,983,300	169,800
Intergovernmental revenues	651,371	651,371	878,624	227,253
Charges for services	299,250	299,250	436,582	137,332
Fines and penalties	158,850	158,850	184,951	26,101
Miscellaneous	66,266	66,266	35,239	(31,027)
Recreation and culture	680,200	680,200	633,334	(46,866)
<b>Total revenues</b>	<b>15,796,062</b>	<b>15,796,062</b>	<b>16,777,042</b>	<b>1,027,846</b>
<b>Expenditures</b>				
Current:				
General government	4,661,071	4,696,560	4,811,041	114,481
Public safety	7,046,690	7,046,690	7,039,712	(6,978)
Transportation	403,200	403,200	310,491	(92,709)
Natural & economic environment	1,134,050	1,134,050	913,909	(220,141)
Social services	27,478	27,478	6,382	(21,096)
Culture and recreation	1,472,726	1,472,726	1,248,721	(224,005)
Capital outlay:				
General government			49,658	49,658
Debt service:				
Principal	-	-	5,755	5,755
Interest and other charges	-	-	594	594
<b>Total expenditures</b>	<b>14,745,215</b>	<b>14,780,704</b>	<b>14,386,264</b>	<b>(394,440)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,050,847</b>	<b>1,015,358</b>	<b>2,390,779</b>	<b>1,375,421</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	12,864	12,864	22,154	9,290
Insurance recovery	-	-	13,085	13,085
Leases (lessee)	-	-	49,658	49,658
Transfers out	(1,077,836)	(1,391,246)	(1,391,246)	-
<b>Total other financing sources and uses</b>	<b>(1,064,972)</b>	<b>(1,378,382)</b>	<b>(1,306,349)</b>	<b>72,033</b>
<b>Net change in fund balances</b>	<b>(14,125)</b>	<b>(363,024)</b>	<b>1,084,429</b>	<b>1,447,453</b>
<b>Fund balances - beginning</b>	<b>4,962,128</b>	<b>4,962,128</b>	<b>5,385,786</b>	<b>423,658</b>
<b>Fund balances - ending</b>	<b>\$ 4,948,003</b>	<b>\$ 4,599,104</b>	<b>\$ 6,470,216</b>	<b>\$ 1,871,112</b>

Budgets for General Fund and the managerial funds are adopted separately. As such, the managerial funds are excluded from the budgetary comparison schedule, but they were rolled into the general fund for financial reporting purposes.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Revenues, Expenditures, and Changes

#### in Fund Balance - Budgetary and Actual

#### Note to RSI

#### Explanation of difference between General Fund budgetary revenues and expenditures and GAAP revenue and expenditures

The annual budgets are adopted on a basis consistent with Generally Accepted Accounting Principles. With the implementation of GASB 54, the funds listed below, which were previously reported as Special revenue Funds, continue to be budgeted and operational and are consolidated with the General Fund for reporting purposes.

#### Revenues

Actual amount	\$ 16,777,042
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#### Differences - Budget to GAAP

Add funds no longer meeting the definition of special revenue funds per GASB Statement No. 54 to General Fund

ARPA Fund	450,569
City Reserve Fund	2,688
Transportation Benefit District Fund	406,598
Drug Enforcement Fund	49
Waterfront Parking Fund	654,250
Street Fund	490,407
Hotel/Motel Tax Fund	236,107
Technology Replacement Fund	20,270
EMS Fund	3,494,568

Total revenue as reported on the the Statement of Revenues, Expenditures, and Changes in fund Balance - General Fund	\$ 22,532,549
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#### Expenditures

Actual amount	\$ 14,386,264
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#### Differences - Budget to GAAP

Add funds no longer meeting the definition of special revenue funds per GASB Statement No. 54 to General Fund

LEOFF Fund	(208)
ARPA Fund	324,254
Drug Enforcement Fund	-
Waterfront Parking Fund	657,582
Street Fund	898,780
Hotel/Motel Tax Fund	242,396
Technology Replacement Fund	205,906
EMS Fund	4,540,084

Total expenditures as reported on the the Statement of Revenues, Expenditures, and Changes in fund Balance - General Fund	\$ 21,255,057
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## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

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

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

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

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

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