



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Mukilteo

For the period January 1, 2019 through December 31, 2019

Published December 24, 2020

Report No. 1027533





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

December 24, 2020

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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

**City of Mukilteo
January 1, 2019 through December 31, 2019**

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2020.

As discussed in Note 16 to the financial statements, the 2018 financial statements have been restated to correct a misstatement.

As also discussed in Note 16 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy

State Auditor

Olympia, WA

December 16, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mukilteo January 1, 2019 through December 31, 2019

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 16 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As also discussed in Note 16 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

December 16, 2020

FINANCIAL SECTION

City of Mukilteo January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Activities – 2019

Balance Sheet – Governmental Funds – 2019

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental
Funds – 2019

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Government-wide Statement of Activities – 2019

Statement of Net Position – Proprietary Funds – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2019

Statement of Cash Flows – Proprietary Funds – 2019

Statement of Fiduciary Net Position – Fiduciary Funds – 2019

Notes to the Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Condition Assessment and Preservation of Infrastructure Eligible for Modified
Accounting Approach – 2019

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
– General Fund – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,
LEOFF 2 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 2 – 2019



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, 2019. 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 \$204,674,422 (net position) for the calendar year reported.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$188,570,161 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) \$6,490,996 of net position is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$9,613,265 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported a total ending fund balance of \$9,977,928 this year. This compares to the prior year ending fund balance of \$9,638,551 showing an increase of \$339,377 or 3.52% 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 \$805,917 or 4.07% of total General Fund expenditures.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all of the City's assets and liabilities, deferred inflows and outflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure, in addition to the financial information provided in this report.



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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

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



Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The following table provides a summary of the City’s net position for the years ended December 31, 2019 and 2018:

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
Assets:						
Current assets	\$ 13,736,866	\$ 13,419,274	\$ 4,412,624	\$ 3,813,784	\$ 18,149,490	\$ 17,233,058
Noncurrent assets						
Net pension asset	3,907,762	3,584,172	-	-	3,907,762	3,584,172
Investment in joint ventures	871,691	1,013,255	-	-	871,691	1,013,255
Capital assets	190,825,880	190,710,898	5,474,280	4,774,185	196,300,160	195,485,083
Total assets	209,342,199	208,727,599	9,886,904	8,587,969	219,229,103	217,315,568
Deferred Outflows:						
Pension obligation	997,481	823,020	94,164	85,519	1,091,645	908,539
Other postemployment benefits	6,027	3,665	-	-	6,027	3,665
Total deferred outflows	1,003,508	826,685	94,164	85,519	1,097,672	912,204
Liabilities:						
Current liabilities	1,789,765	1,721,272	102,803	173,192	1,892,568	1,894,464
Long-term liabilities	10,998,244	11,911,342	422,781	505,268	11,421,025	12,416,610
Total liabilities	12,788,009	13,632,614	525,584	678,460	13,313,593	14,311,074
Deferred Inflows:						
Pension obligation	2,147,484	1,980,444	191,276	149,421	2,338,760	2,129,865
Grants received in advance	-	77,500	-	-	-	77,500
Refunded debt	-	61,634	-	-	-	61,634
Total deferred inflows	2,147,484	2,119,578	191,276	149,421	2,338,760	2,268,999
Net position:						
Net investment in capital assets	183,095,879	182,314,898	5,474,282	4,774,186	188,570,161	187,089,084
Restricted	6,490,996	5,565,917	-	-	6,490,996	5,565,917
Unrestricted	5,823,339	5,921,278	3,789,926	3,071,421	9,613,265	8,992,699
Total net position	\$ 195,410,214	\$ 193,802,093	\$ 9,264,208	\$ 7,845,607	\$ 204,674,422	\$ 201,647,700

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 7.68 to 1 at December 31, 2019. The current ratio for the business-type activities at December 31, 2019 is 42.92 to 1. For the City overall, the current ratio is 9.59 to 1. These ratios are strong.



The City reported positive balances in net position for both governmental and business-type activities. Net position increased by \$1,608,120 before restatement for governmental activities and increased by \$1,418,603 before restatement for business-type activities. The City's overall financial position increased during calendar year 2019 by \$3,026,723 prior to restatement. The overall financial position did not change due to prior period adjustments, but a reclassification between governmental activities and business-type activities of \$322,326 occur due to pension liabilities, deferred inflows of resources related to pension, and deferred outflows of resources related to pension.

The City reported that 93.70% 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 59.09% of its net position as its net capital investment. Capital assets in the business-type activities provide surface water services and generate revenues for this fund. Overall, 92.13% 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, 2019 and 2018:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	Restated		Restated		Restated	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 4,234,749	\$ 4,107,407	\$ 3,540,220	\$ 3,270,246	\$ 7,774,969	\$ 7,377,653
Operating grants and contributions	1,734,895	2,627,468	-	-	1,734,895	2,627,468
Capital grants and contributions	1,170,618	1,195,150	72,490	130,457	1,243,108	1,325,607
General revenues:						
Property taxes	7,484,400	6,825,149	-	-	7,484,400	6,825,149
Sales taxes	4,054,104	3,593,358	-	-	4,054,104	3,593,358
Other taxes	4,216,359	4,802,334	-	-	4,216,359	4,802,334
Other (net)	345,938	780,977	15,133	749	361,071	781,726
Total revenues	23,241,063	23,931,843	3,627,843	3,401,452	26,868,907	27,333,295
Program expenses:						
General government	3,438,650	4,159,564	-	-	3,438,650	4,159,564
Public safety	11,983,746	10,696,720	-	-	11,983,746	10,696,720
Transportation	2,423,397	1,735,802	-	-	2,423,397	1,735,802
Natural and economic environment	1,092,492	2,860,165	-	-	1,092,492	2,860,165
Culture and recreation	2,529,576	2,809,860	-	-	2,529,576	2,809,860
Interest on long-term debt	206,681	230,094	-	-	206,681	230,094
Surface water management	-	-	2,167,641	2,333,096	2,167,641	2,333,096
Total expenses	21,674,543	22,492,205	2,167,641	2,333,096	23,842,184	24,825,301
Revenues over (under) expenses	1,566,520	1,439,638	1,460,203	1,068,356	3,026,723	2,507,994
Transfers in (out)	41,600	37,700	(41,600)	(37,700)	-	-
Change in net position	1,608,120	1,477,338	1,418,603	1,030,656	3,026,723	2,507,994
Beginning net position	193,479,767	192,411,641	8,167,932	6,814,950	201,647,698	199,226,591
Change in accounting principle	-	(86,886)	-	-	-	(86,886)
Prior period adjustment	322,326	-	(322,326)	-	-	-
Ending net position	\$ 195,410,214	\$ 193,802,093	\$ 9,264,208	\$ 7,845,606	\$ 204,674,422	\$ 201,647,699



Governmental Activities Analysis

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. From 2018 to 2019, the assessed taxable valuation of an average residential property increased by 9.7%. Sales taxes increased \$460,746 over 2018 or 12.82%, which includes the Transportation Benefit District sales tax that started in the second quarter of 2018. The economy continues to strengthen in the City as we have seen an increase in retail sales, and an increase in sales tax generated by new construction activities in the City.

In total, taxes make up 68.38% of the total revenues stream as compared to 63.60% in 2018. The increase is partly attributed to the Transportation Benefit District sales tax being in place for a full year in 2019 as compared to three quarters of a year in 2018.

The operating grants of \$412,537 for general government programs included the following:

- Liquor Board Taxes from the State of Washington: \$173,795
- Liquor Excise Tax from the State of Washington: \$118,531
- PUD Privilege Tax from Snohomish County PUD: \$119,961

The primary sources of other governmental operating grants are the City's share of the State's Motor Vehicle Fuel Tax of \$451,363.

The City had state operating grants for the Mukilteo Boys and Girls Club ballfields project of \$127,500 and capital grants for the following projects:

- Harbour Pointe Boulevard SW Widening project: \$562,463
- Harbour Reach Extension project: \$464,151
- Peace Park project: \$136,042

The City reported investment interest earned in the amount of \$262,779 as compared to \$187,347 in 2018, due to maturities of investment bonds.

Note that program revenues cover 32.94% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 67.06% of the governmental expenses. As a result, the general economy and the success of City businesses have a significant impact on the City's revenue streams.

Governmental Functional Expenses

Total cost of services

The City's governmental activities functions were consistent from 2018 to 2019. Total cost of services decreased by \$817,662, and the net cost of services decreased by \$1,342,998, due to lower expenditures for natural and economic environment function related to wrapping up the Mukilteo Boys and Girls Club ballfields project funded by state grant.



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

Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	Restated		Restated	
	2019	2018	2019	2018
General government	\$ 3,438,650	\$ 4,159,564	\$ 1,092,885	\$ 2,085,676
Public safety	11,983,746	10,696,720	10,622,515	9,668,911
Transportation	2,423,397	1,735,802	501,376	522,501
Natural and economic environment	1,092,492	2,860,165	959,455	1,332,458
Culture and recreation	2,529,576	2,809,860	1,151,368	1,440,444
Interest on long-term debt	206,681	230,094	206,681	827,288
Total	<u>\$ 21,674,543</u>	<u>\$ 22,492,205</u>	<u>\$ 14,534,280</u>	<u>\$ 15,877,278</u>

Business-Type Activities Analysis

The City maintains a single enterprise fund for surface water activities. In this fiscal year, operating revenues were \$3,540,220 and operating expenses were \$2,209,793, resulting in an operating gain of \$1,330,427.

Revenues from charges for services increased \$269,975 or 8.26% greater in 2019 than 2018. This increase includes an 10.5% rate increase in line with a multi-year rate increase plan that was adopted by the City Council in 2015.

Operations and maintenance costs increased \$248,141 or 12.65% above the 2018 amount. Depreciation expense increased \$20,600 or 8.14% in 2019 as compared to 2018. In this year, the Surface Water Fund transferred \$41,600 of resources to other funds. At December 31, 2019, net position totaled \$9,264,208. Of this amount, \$5,474,282 or 59.09% is restricted for capital assets.

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$9,977,928 as compared to the amount of \$9,638,551 at December 31, 2018.

The restricted amount at December 31, 2019 was \$5,225,951, relating primarily to capital improvements funded by REET revenues.

The committed amount of \$1,265,045 is primarily for a contingency reserve of \$1 million.

The assigned fund balance of \$2,563,441 is set aside for operating reserves in the General Fund in accordance with the City’s Fund Balance Reserve Policy which requires an amount equal to two months of operating expenditures (16.67%) to be maintained.



The General Fund – The General Fund is the City’s primary operating fund and the largest funding source for day-to-day service delivery. The General Fund’s fund balance increased by \$811,867 or 15.65% in 2019. In calendar year 2018, the fund balance decreased \$28,946 or 0.55%.

Total revenues increased \$1,311,918 or 6.95% in 2019, which is largely related to increased sales taxes in the amount of \$1,092,610 or 8.22% which includes the Transportation Benefit District sales tax.

Total licenses and permits were up \$88,298 or 6.13% above the 2018 amount, due to an increase in the number of commercial construction permits.

In 2019, total expenditures increased \$526,405 or 2.73% above the 2018 amount; this amount includes the Transportation Benefit District pavement preservation project.

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

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

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants. Charges for Services in the Capital Projects Fund include park mitigation and street mitigation fees. Mitigation fees have increased slightly from \$121,043 to \$127,435.

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 2019, the City recognized real estate excise tax collected in the amount of \$1,364,356 as compared to \$1,918,557 in 2018 when there were high value commercial sales that increased revenues.

In 2019 capital outlay projects totaled \$1,749,916, while non-capital maintenance and other costs totaled \$224,946 . Ending fund balance in 2019 was \$3,972,467. Capital outlay increased from 2018 primarily related to the Harbour Pointe Boulevard SW Widening and Harbour Reach Drive Corridor Extension projects and contributions to the pavement preservation project.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund revenue budget was amended upward by \$51,000, or 0.26% for increased ambulance transport fees. In total, the City realized 102.83% of estimated revenues.

Total tax revenue was \$338,083 higher than the budget. Property tax revenue was \$39,975 over the final budget, sales tax revenue was \$391,104 higher than the final budget, and other taxes and assessments were \$92,997 below the final budget.

With regard to the General Fund expenditure budget, it was amended upward \$164,200 or 0.80%. This was to allow for increased full-time personnel costs and increased equipment replacement charges for emergency medical services.



The public safety budget was overspent by \$123,471 or 1.16%. The natural and economic environment was underspent by \$231,245 or 16.11%, the culture and recreation budget was underspent by \$99,094 or 5.18% and the general government budget was underspent by \$205,936 or 4.91%. The underspent budgets were primarily related to savings from vacant positions.

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, 2019 was a 0.43% increase for governmental activities and a 14.66% increase for business-type activities. The overall increase was 0.79% 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, 2019 and 2018.

	Governmental Activities		Business Activities		Total	
	2019	2018	2019	2018	2019	2018
Nondepreciable assets:						
Land	\$ 43,724,327	\$ 43,286,843	\$ 150,000	\$ 150,000	\$ 43,874,327	\$ 43,436,843
Right of way	10,980,573	10,660,585	53,172	3,634	11,033,745	10,664,219
Art collections	287,624	287,624	-	-	287,624	287,624
Infrastructure - streets	101,539,370	101,539,370	-	-	101,539,370	101,539,370
Construction in progress	4,667,645	3,723,441	507,665	508,975	5,175,310	4,232,416
Total nondepreciable assets	161,199,539	159,497,863	710,837	662,609	161,910,376	160,160,472
Depreciable assets:						
Buildings	27,942,823	27,942,823	-	-	27,942,823	27,942,823
Other improvements	10,013,854	10,013,854	7,908,982	7,820,244	17,922,836	17,834,098
Machinery and equipment	10,295,868	10,179,459	1,468,954	632,039	11,764,822	10,811,498
Infrastructure	12,810,966	12,810,966	-	-	12,810,966	12,810,966
Total depreciable assets	61,063,511	60,947,102	9,377,936	8,452,283	70,441,447	69,399,385
Less accumulated depreciation	31,437,170	29,734,067	4,614,493	4,340,707	36,051,663	34,074,774
Book value - depreciable assets	29,626,341	31,213,035	4,763,443	4,111,576	34,389,784	35,324,611
Percentage depreciated	51%	49%	49%	51%	51%	49%
Book value - all assets	\$ 190,825,880	\$ 190,710,898	\$ 5,474,280	\$ 4,774,185	\$ 196,300,160	\$ 195,485,083

At December 31, 2019, the depreciable capital assets for governmental activities were 51% depreciated, which is consistent with capital assets as of December 31, 2018.

Governmental Activities

The increase to the construction in progress consisted primarily of:

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

Business Activities

The increase to the construction in progress consisted primarily of:

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



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

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

Long-Term Debt

The following table reports outstanding long-term obligations at both December 31, 2019 and 2018.

	Outstanding Obligations					
	Governmental Activities		Business-type Activities		Totals	
	Restated		Restated		Restated	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 7,730,000	\$ 8,400,000	\$ -	\$ -	\$ 7,730,000	\$ 8,400,000
Compensated absences	1,656,657	1,283,042	127,241	125,818	1,783,898	1,408,860
Pension obligation	1,250,979	1,839,565	295,540	379,452	1,546,519	2,219,017
Other postemployment benefits	360,608	376,868	-	-	360,608	376,868
Total	<u>\$ 10,998,244</u>	<u>\$ 11,899,475</u>	<u>\$ 422,781</u>	<u>\$ 505,270</u>	<u>\$ 11,421,025</u>	<u>\$ 12,404,745</u>

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

The rating action was based in part on the City experiencing what Standard & Poor's referred to as a "period of political acrimony" including the "uncertainty" pending the outcome of a ballot measure giving voters the opportunity to switch the form of government from Mayor-Council to Council-Manager. At the time the rating check was conducted, the City Administrator position was being filled by an interim contractor. The ballot measure failed, and the Mayor-Council form of government was retained. The City Administrator position was filled permanently in April of 2020.

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

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with good financial policies and practices under our financials management assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total government fund level in fiscal 2018;



- Very strong budgetary flexibility, with an available fund balance in 2018 of 21% of operating expenditures;
- Very strong liquidity, with total governmental available cash of 44% of total governmental fund expenditures and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 30.2% of total governmental fund revenue, as well as rapid amortization, with all debt scheduled to be retired in 10 years;
- Adequate institutional framework score.

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

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

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

The City's 2020 budget was the sixth budget presented by Mayor Jennifer Gregerson, who is in her second term in office. During her first term, Mayor Gregerson kept her commitment to maintain high service delivery levels without increases in taxes and fees. For the 2019 budget year, the Mayor committed to propose a budget that was not just balanced, but also sustainable. The 2019 budget included an increase in property taxes for the first time since 2013 and presented a realistic picture of the costs to deliver the fundamentals of our operation: public safety, infrastructure, development services, and parks and recreation. The 2020 budget was adopted on November 18, 2019 and focused on the priorities of Fiscal Health, Long-Range Financial Planning, Safe Strong Neighborhoods, and a Beautiful Community.

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

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



telework equipment. The City continues to spend to keep its infrastructure in good shape and is moving forward with capital projects as budgeted.

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

2020 Budget Overview

Adopted budgeted revenues and transfers in for all funds total \$50.9 million. Adopted budgeted expenditures and transfers out total \$53.5 million.

Exceeding the two-month minimum fund balance set by policy, the adopted budget includes an estimated ending balance in the General Fund of \$3.6 million which equals 23.7% of 2020 General Fund expenditures and transfers out.

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

Requests for Information

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



Statement of Net Position
December 31, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,620,664	\$ 3,837,361	\$ 10,458,025
Investments	3,993,559	-	3,993,559
Receivables (net of allowance for uncollectible)	498,392	527,912	1,026,304
Grants receivable	1,007,889	39,063	1,046,952
Taxes receivable	1,468,376	-	1,468,376
Prepaid items	147,986	8,288	156,274
Noncurrent assets:			
Investment in joint ventures	871,691	-	871,691
Net pension asset	3,907,762	-	3,907,762
Capital assets not being depreciated:			
Land	43,724,327	150,000	43,874,327
Right of way easements	10,980,573	53,172	11,033,745
Art collections	287,624	-	287,624
Infrastructure - streets	101,539,370	-	101,539,370
Construction in progress	4,667,645	507,665	5,175,310
Capital assets (net of accumulated depreciation):			
Buildings	19,344,691	-	19,344,691
Other improvements	3,493,819	3,470,567	6,964,386
Machinery and equipment	3,266,836	1,292,876	4,559,712
Infrastructure	3,520,995	-	3,520,995
Total capital assets	<u>190,825,880</u>	<u>5,474,280</u>	<u>196,300,160</u>
Total assets	<u>209,342,199</u>	<u>9,886,904</u>	<u>219,229,103</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension obligation	997,481	94,164	1,091,645
Other postemployment benefit obligation	6,027	-	6,027
Total deferred outflows of resources	<u>1,003,508</u>	<u>94,164</u>	<u>1,097,672</u>
LIABILITIES			
Current liabilities:			
Accounts payable	661,597	55,725	717,322
Accrued wages	519,972	47,078	567,050
Deposits payable	378,894	-	378,894
Unearned revenue	229,302	-	229,302
Noncurrent liabilities:			
Due within one year	851,327	12,007	863,334
Due in more than one year	10,146,917	410,774	10,557,691
Total liabilities	<u>12,788,009</u>	<u>525,584</u>	<u>13,313,593</u>
DEFERRED INFLOWS OF RESOURCES			
Pension obligation	2,147,484	191,276	2,338,760
Total deferred inflows of resources	<u>2,147,484</u>	<u>191,276</u>	<u>2,338,760</u>
NET POSITION			
Net investment in capital assets	183,095,879	5,474,282	188,570,161
Restricted for:			
Capital	3,972,467	-	3,972,467
Reserves	206,494	-	206,494
Other purposes	2,312,035	-	2,312,035
Unrestricted	5,823,339	3,789,926	9,613,265
Total net position	<u>\$ 195,410,214</u>	<u>\$ 9,264,208</u>	<u>\$ 204,674,422</u>

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



Statement of Activities

For the year ended December 31, 2019

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Functions/Programs:							
Primary government:							
Governmental activities:							
General government	\$ 3,438,650	\$ 1,933,228	\$ 412,537	\$ -	\$ (1,092,885)	\$ -	\$ (1,092,885)
Public safety	11,983,746	944,910	401,228	15,093	(10,622,515)	-	(10,622,515)
Transportation	2,423,397	129,445	773,094	1,019,483	(501,376)	-	(501,376)
Natural and economic environment	1,092,492	-	133,037	-	(959,455)	-	(959,455)
Culture and recreation	2,529,576	1,227,166	15,000	136,042	(1,151,368)	-	(1,151,368)
Interest on long-term debt	206,681	-	-	-	(206,681)	-	(206,681)
Total governmental activities	21,674,543	4,234,749	1,734,895	1,170,618	(14,534,280)	-	(14,534,280)
Business-type activities:							
Surface water	2,167,641	3,540,220	-	72,490	-	1,445,069	1,445,069
Total business-type activities	2,167,641	3,540,220	-	72,490	-	1,445,069	1,445,069
Total primary government	\$ 23,842,184	\$ 7,774,969	\$ 1,734,895	\$ 1,243,108	(14,534,280)	1,445,069	(13,089,211)
General revenues:							
Property taxes					7,484,400	-	7,484,400
Sales taxes					4,054,104	-	4,054,104
Other taxes					4,216,359	-	4,216,359
Investment earnings					262,779	-	262,779
Miscellaneous revenue					83,159	15,133	98,292
Transfers					41,600	(41,600)	-
Total general revenues and transfers					16,142,401	(26,467)	16,115,934
Change in net position					1,608,121	1,418,602	3,026,723
Net position - beginning					193,479,767	8,167,932	201,647,699
Prior period adjustment					322,326	(322,326)	-
Restated net position - beginning					193,802,093	7,845,606	201,647,699
Net position - ending					\$ 195,410,214	\$ 9,264,208	\$ 204,674,422

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



Balance Sheet
Governmental Funds
December 31, 2019

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 3,295,281	\$ 2,444,160	\$ 6,723	\$ 5,746,164
Investments	1,999,676	994,857	-	2,994,533
Receivables (net of allowance for uncollectible)	441,368	-	-	441,368
Grants receivable	297,923	709,966	-	1,007,889
Taxes receivable	1,320,367	148,009	-	1,468,376
Prepaid items	131,490	-	63	131,553
Total assets	<u>\$ 7,486,105</u>	<u>4,296,992</u>	<u>6,786</u>	<u>11,789,883</u>
LIABILITIES				
Accounts payable	\$ 376,327	\$ 147,025	\$ -	\$ 523,352
Accrued wages	510,134	-	-	510,134
Deposits payable	201,394	177,500	-	378,894
Unearned revenue	229,302	-	-	229,302
Total liabilities	<u>\$ 1,317,157</u>	<u>324,525</u>	<u>-</u>	<u>1,641,682</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - receivables	\$ 170,273	\$ -	\$ -	\$ 170,273
Total deferred inflows of resources	<u>\$ 170,273</u>	<u>-</u>	<u>-</u>	<u>170,273</u>
FUND BALANCES (DEFICITS)				
Nonspendable	\$ 117,574	\$ -	\$ -	\$ 117,574
Restricted	1,246,698	3,972,467	6,786	5,225,951
Committed	1,265,045	-	-	1,265,045
Assigned	2,563,441	-	-	2,563,441
Unassigned	805,917	-	-	805,917
Total fund balances (deficits)	<u>\$ 5,998,675</u>	<u>\$ 3,972,467</u>	<u>\$ 6,786</u>	<u>\$ 9,977,928</u>

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	187,736,402
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	871,691
Other items related to pension and other post employment benefit activity that are not financial resources and, therefore, are not reported in the funds.	2,786,248
Deferred inflows related to unearned revenue that are not available in the current period and, therefore, are not reported in the funds.	170,273
Long-term liabilities, such as compensated absences and bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(10,916,868)
Internal service funds are used by management to charge the costs of certain activities, such as facilities maintenance, facility renewal, and equipment repair, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	4,784,540
Net position of governmental activities	<u>\$ 195,410,214</u>

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



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

For the year ended December 31, 2019

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 7,481,975	\$ -	\$ -	\$ 7,481,975
Sales taxes	4,054,104	-	-	4,054,104
Other taxes and assessments	2,852,003	1,364,356	-	4,216,359
Licenses and permits	1,529,088	-	-	1,529,088
Intergovernmental	1,406,576	1,290,155	-	2,696,731
Charges for services	1,335,941	127,435	-	1,463,376
Fines and forfeitures	139,008	-	-	139,008
Rents and leases	1,146,464	-	-	1,146,464
Investment earnings	190,656	29,553	-	220,209
Contributions and donations	45,036	555	-	45,591
Miscellaneous revenues	20,855	-	-	20,855
Total revenues	20,201,706	2,812,054	-	23,013,760
EXPENDITURES				
Current:				
General government	3,986,660	-	-	3,986,660
Public safety	10,806,090	-	-	10,806,090
Transportation	1,986,295	224,946	-	2,211,241
Natural and economic environment	1,204,349	-	-	1,204,349
Culture and recreation	1,813,612	-	-	1,813,612
Debt service:				
Principal	-	-	670,000	670,000
Interest and other debt costs	-	-	206,982	206,982
Capital outlay	15,133	1,749,916	-	1,765,049
Total expenditures	19,812,139	1,974,862	876,982	22,663,983
Excess (deficiency) of revenues over (under) expenditures	389,567	837,192	(876,982)	349,777
OTHER FINANCING SOURCES (USES)				
Transfers in	462,300	-	880,345	1,342,645
Transfers out	(40,000)	(1,313,045)	-	(1,353,045)
Total other financing sources (uses)	422,300	(1,313,045)	880,345	(10,400)
Net change in fund balances	811,867	(475,853)	3,363	339,377
Fund balances - beginning	5,186,808	4,448,320	3,423	9,638,551
Fund balances - ending	\$ 5,998,675	\$ 3,972,467	\$ 6,786	\$ 9,977,928

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



**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Government-wide Statement of Activities**
For the year ended December 31, 2019

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

Net changes in fund balances for governmental funds		\$ 339,377
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.</p>		
Capital outlays	1,765,049	
Depreciation	(1,566,207)	
		198,842
<p>The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Bonds payable	670,000	
Unamortized bond premium	11,866	
Deferred inflow related to refunded debt	61,634	
		743,500
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Investment in joint ventures	(141,564)	
Deferred inflows	(53,944)	
		(195,508)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.</p>		
Compensated absences	(376,199)	
Pension obligation	1,243,550	
Other post employment benefit obligation	18,622	
		885,973
<p>Internal service funds are used by management to charge the costs of certain activities, such as facility maintenance, facility renewal and equipment repair to individual funds. The net (revenue) expense of certain activities of internal service funds is reported with governmental activities.</p>		
		(41,737)
Change in net position of governmental activities		<u>\$ 1,930,447</u>

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



Statement of Net Position
Proprietary Funds
December 31, 2019

	Business-type Activities	Governmental Activities
	Surface Water Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,837,361	\$ 874,501
Investments	-	999,026
Receivables (net of allowance for uncollectible)	527,912	57,024
Grants receivable	39,063	-
Prepaid items	8,288	16,432
Total current assets	4,412,624	1,946,983
Noncurrent assets:		
Capital assets:		
Land	150,000	-
Right of way easements	53,172	-
Construction in progress	507,665	19,238
Buildings	-	10,645
Other improvements	7,908,982	415,435
Machinery and equipment	1,468,955	6,032,628
Less accumulated depreciation	(4,614,494)	(3,388,469)
Total noncurrent assets	5,474,280	3,089,477
Total assets	9,886,904	5,036,460
DEFERRED OUTFLOWS OF RESOURCES		
Pension obligation	94,164	21,779
Total deferred outflows of resources	94,164	21,779
LIABILITIES		
Current liabilities:		
Accounts payable	55,725	138,246
Accrued wages	47,078	9,837
Total current liabilities	102,803	148,083
Noncurrent Liabilities		
Due within one year	12,007	1,228
Due in more than one year	410,774	80,147
Total noncurrent liabilities	422,781	81,375
Total liabilities	525,584	229,458
DEFERRED INFLOWS OF RESOURCES		
Pension obligation	191,276	44,241
Total deferred inflows of resources	191,276	44,241
NET POSITION		
Net investment in capital assets	5,474,282	3,089,477
Unrestricted	3,789,926	1,695,063
Total net position	\$ 9,264,208	\$ 4,784,540

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



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

For the year ended December 31, 2019

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Surface Water Fund</u>	<u>Internal Service Funds</u>
Operating revenues:		
Charges for services	\$ 3,540,220	\$ 1,176,210
Total operating revenues	<u>3,540,220</u>	<u>1,176,210</u>
Operating expenses:		
Operations and maintenance	1,936,009	863,501
Depreciation	<u>273,784</u>	<u>443,399</u>
Total operating expenses	<u>2,209,793</u>	<u>1,306,900</u>
Operating income (loss)	<u>1,330,427</u>	<u>(130,690)</u>
Non-operating revenues (expenses):		
Intergovernmental	72,490	25,270
Investment earnings	-	42,570
Gain(loss) on disposal of property	42,152	(31,663)
Other non-operating	<u>15,133</u>	<u>776</u>
Total non-operating revenue (expenses)	<u>129,775</u>	<u>36,953</u>
Income(loss) before transfers	1,460,202	(93,737)
Transfers in	-	52,000
Transfers out	<u>(41,600)</u>	-
Change in net position	1,418,602	(41,737)
Net position - beginning	8,167,932	4,898,460
Prior period adjustment	<u>(322,326)</u>	<u>(72,182)</u>
Restated net position - beginning	<u>7,845,606</u>	<u>4,826,278</u>
Net position - ending	<u>\$ 9,264,208</u>	<u>\$ 4,784,541</u>

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



Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2019

	Business-type Activities	Governmental Activities
	Surface Water Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Customers	\$ 3,501,112	\$ -
Interfund services provided	-	1,176,210
Cash payments to:		
Suppliers for goods and services	(512,433)	(469,519)
Interfund services used	(203,650)	-
Employees	(1,287,051)	(310,316)
Other governments	(52,959)	-
Net cash provided by operating activities	1,445,019	396,375
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating subsidies and transfers from other funds	-	52,000
Operating subsidies and transfers to other funds	(41,600)	-
Net cash provided (used) by noncapital financing activities	(41,600)	52,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from:		
Capital grants	72,921	30,039
Payments for:		
Capital assets	(916,596)	(447,451)
Net cash used by capital related financing activities	(843,675)	(417,412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	-	16,200
Net cash provided by investing activities	-	16,200
Net increase in cash and cash equivalents	559,744	47,163
Cash and cash equivalents at beginning of year	3,277,617	827,338
Cash and cash equivalents at end of year	\$ 3,837,361	\$ 874,501
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,330,427	\$ (130,690)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	273,784	443,399
(Increase) decrease in accounts receivable	(39,109)	-
(Increase) decrease in prepaid items	(417)	(16,273)
(Decrease) increase in accounts payable	(76,259)	103,806
Decrease (increase) in employee benefits	(43,407)	(3,867)
Total adjustments	114,592	527,065
Net cash provided by operating activities	\$ 1,445,019	\$ 396,375
Schedule of non-cash capital, investing, and financing activities:		
Depreciation of capital assets	(273,784)	(443,399)
Prior period adjustment	(322,326)	(72,182)
Change in fair market value	-	26,370

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



Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2019

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 38,514
Total assets	<u>38,514</u>
LIABILITIES	
Liabilities payable from restricted assets	<u>38,514</u>
Total liabilities	<u>\$ 38,514</u>

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



Note 1 - Summary of significant accounting policies

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

A. Reporting entity

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

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

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

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

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

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

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

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

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



The City reports the following major governmental funds:

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

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

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

The City reports the following enterprise fund:

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

Additionally, the City reports the following fund types:

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

The **Equipment Replacement Fund** finances the replacement, pursuant to a detailed equipment replacement schedule, of all capital equipment owned by the City. Funds are charged an annual fee set aside to replace capital equipment in the future.

The **Facilities Maintenance Fund** charges funds for expenditures related to the general operations and maintenance of City facilities.

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

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

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

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds.



While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. There were no such balances in the current year.

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

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

C. Measurement focus and basis of accounting

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

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

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

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



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

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

D. Budgetary information

1. Scope of Budget

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

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

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

2. Amending the Budget

The Mayor and City Administrator are authorized to transfer budgeted amounts within any fund. However, any revisions that alter the total appropriations of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council. When the City Council determines that it is in the best interest of the City to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than a simple majority after holding public hearings in accordance with state laws governing the budget amendment process.

3. Excess of Expenditures over Appropriations

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

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

1. Cash and Cash Equivalents (Note 3)

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

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

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

2. Investments (Note 3)

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

3. Receivables (Note 4)

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

4. Inventory and Prepaid Items

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

5. Capital Assets and Depreciation (Note 5)

Capital Assets are defined as land and artwork or historic collections of any value; improvements and infrastructure; buildings, their furnishings, fixtures, and furniture; equipment, machinery, vehicles, and tools, with a value of \$5,000 or more for non-infrastructure or \$10,000 or more per item for infrastructure, and having a useful life exceeding one year from the date of acquisition. All non-infrastructure assets with a cost of \$5,000 or more, and infrastructure additions where individual items cost \$10,000 or more, will be capitalized.

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

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

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

6. Unearned Revenue

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

7. Compensated Absences

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

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

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

8. Pensions (Note 6)

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

9. Other postemployment benefits (OPEB) (Note 7)

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

10. Long-Term Debt (Note 10)

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

11. Deferred Inflows and Outflows of Resources

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

12. Restricted Assets and Liabilities

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

13. Fund Balances

Fund balances are reported in five classifications: nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balances are those not in a spendable form (such as inventories or



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

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

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

The details of fund balance classifications as reported on the Balance Sheet – Governmental Funds are as follows for December 31, 2019:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable				
Prepaid items	\$ 117,574	\$ -	\$ -	\$ 117,574
Restricted				
Capital	-	3,972,467	-	3,972,467
Culture and recreation	8,000	-	-	8,000
Debt service	-	-	6,786	6,786
Natural environment	112,535	-	-	112,535
Public safety	805,438	-	-	805,438
Tourism	215,544	-	-	215,544
Transportation	105,181	-	-	105,181
Committed				
Culture and recreation	58,551	-	-	58,551
Contingency reserve	1,000,000	-	-	1,000,000
Employee benefits	31,157	-	-	31,157
Technology reserve	175,337	-	-	175,337
Assigned				
Operating reserve	2,563,441	-	-	2,563,441
Unassigned	805,917	-	-	805,917
Total fund balance	<u>\$ 5,998,675</u>	<u>\$ 3,972,467</u>	<u>\$ 6,786</u>	<u>\$ 9,977,928</u>

Note 2 - Stewardship, compliance, and accountability

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

General Fund:

Contingency Fund Reserve: Also referred to as the Emergency Fund, maintains \$1,000,000 balance to provide a financial cushion to cover revenue shortfalls resulting from unexpected economic changes or



recessionary periods or to provide resources in the event of major unplanned expenditures the City could face as a result of natural disaster, for example.

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

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

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

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

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

Note 3 - Deposits and investments

Deposits

Cash on hand at December 31, 2019 was \$2,600. The carrying amount of the City's deposits in the bank was \$7,814,196 and \$38,514 of that amount was agency fund deposit.

Custodial Credit Risk

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

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

At December 31, 2019, 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, 2019 the City had the following investments:

Investment Type	Fair Value	Investment Maturities (In Years)	
		Less than 1	1 to 5
U.S. Government Agency Securities	\$ 3,993,559	\$ 3,993,559	\$ -
Snohomish County Local Investment Pool	2,845,777	2,845,777	-
State of Washington Local Government Investment Pool	995,383	995,383	-
	<u>\$ 7,834,719</u>	<u>\$ 7,834,719</u>	<u>\$ -</u>

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

Credit Risk

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

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

Concentration of Credit Risk

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

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

Investments in Local Government Investment Pool (LGIP)

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

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



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

Investments in Snohomish County Investment Pool

The City is a participant in the Snohomish County Investment Pool (SCIP), an external investment pool. The City reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The SCIP is not registered with the SEC. The SCIP investment policy is established by the Snohomish County Finance Committee consisting of the County Treasurer, County Executive and Chairperson of the County Council. The county external investment pool does not have a credit rating and had a weighted average maturity of 1.62 years as of December 31, 2019.

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, 2019, the City had the following investments measured at fair value:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
U.S. Government Agency Securities	\$ 3,993,559	\$ -	\$ 3,993,559	\$ -
Snohomish County Local Investment Pool	2,845,777	-	2,845,777	-
State of Washington Local Government	995,383	-	995,383	-
Total investments	<u>\$ 7,834,719</u>	<u>\$ -</u>	<u>\$ 7,834,719</u>	<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	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installments payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance for the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully



collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City may levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. The City's regular levy for 2019 was \$1.459 per \$1,000 on an assessed valuation of \$5,129,204,722 for a total regular levy of \$7,487,940. 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, 2019 was as follows:

	Balance 1/1/2019	Increases	Decreases	Balance 12/31/2019
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 43,286,843	\$ 437,484	\$ -	\$ 43,724,327
Right of way	10,660,585	319,988	-	10,980,573
Art	287,624	-	-	287,624
Infrastructure - streets	101,539,370	-	-	101,539,370
Construction in progress	3,723,441	2,013,673	(1,069,469)	4,667,645
Total capital assets, not being depreciated	<u>159,497,863</u>	<u>2,771,145</u>	<u>(1,069,469)</u>	<u>161,199,539</u>
Capital assets, being depreciated:				
Buildings	27,942,823	-	-	27,942,823
Other improvements	10,013,854	-	-	10,013,854
Machinery & equipment	10,179,459	567,325	(450,916)	10,295,868
Infrastructure	12,810,966	-	-	12,810,966
Total capital assets, being depreciated	<u>60,947,102</u>	<u>567,325</u>	<u>(450,916)</u>	<u>61,063,511</u>
Less accumulated depreciation for:				
Buildings	(8,086,574)	(511,558)	-	(8,598,132)
Other improvements	(5,787,564)	(732,471)	-	(6,520,035)
Machinery & equipment	(6,759,695)	(575,841)	306,504	(7,029,032)
Infrastructure	(9,100,234)	(189,737)	-	(9,289,971)
Total accumulated depreciation	<u>(29,734,067)</u>	<u>(2,009,607)</u>	<u>306,504</u>	<u>(31,437,170)</u>
Total capital assets, being depreciated, net	<u>31,213,035</u>	<u>(1,442,282)</u>	<u>(144,412)</u>	<u>29,626,341</u>
Governmental activities capital assets, net	<u>\$ 190,710,898</u>	<u>\$ 1,328,863</u>	<u>\$ (1,213,881)</u>	<u>\$ 190,825,880</u>

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

Governmental activities:	
General government	\$ 378,990
Public safety	483,191
Transportation	294,423
Natural and economic environment	21,217
Culture and recreation	831,786
Total depreciation expense - governmental activities	<u>\$ 2,009,607</u>



B. Capital Assets – Business-Type Activities

	<u>Balance</u> <u>1/1/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2019</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Right of way	3,634	49,538	-	53,172
Construction in progress	508,975	127,166	(128,476)	507,665
Total capital assets, not being depreciated	<u>662,609</u>	<u>176,704</u>	<u>(128,476)</u>	<u>710,837</u>
Capital assets, being depreciated:				
Other improvements	7,820,244	88,738	-	7,908,982
Machinery & equipment	632,039	836,915	-	1,468,954
Total capital assets, being depreciated	<u>8,452,283</u>	<u>925,653</u>	<u>-</u>	<u>9,377,936</u>
Less accumulated depreciation for:				
Other improvements	(4,227,023)	(211,391)	-	(4,438,414)
Machinery & equipment	(113,684)	(62,395)	-	(176,079)
Total accumulated depreciation	<u>(4,340,707)</u>	<u>(273,786)</u>	<u>-</u>	<u>(4,614,493)</u>
Total capital assets, being depreciated, net	<u>4,111,576</u>	<u>651,867</u>	<u>-</u>	<u>4,763,443</u>
Business-type activities capital assets, net	<u>\$ 4,774,185</u>	<u>\$ 828,571</u>	<u>\$ (128,476)</u>	<u>\$ 5,474,280</u>

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

Business-type activities:

Surface Water	<u>\$ 273,784</u>
Total depreciation expense - business type activities	<u>\$ 273,784</u>

Note 6 - Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 1,546,519
Pension assets	3,907,762
Deferred outflows of resources	1,091,645
Deferred inflows of resources	2,338,760
Pension expense/expenditures	101,673

State Sponsored Pension Plans

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



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

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

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

Public Employees’ Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
July - December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%



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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%



The City's actual PERS plan contributions were \$206,644 to PERS Plan 1 and \$345,250 to PERS Plan 2/3 for the year ended December 31, 2019.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2019. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

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

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.44% as of July 1, 2019.



The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
January - June 2019		
State and local governments	5.25%	8.75%
Administrative Fee	0.18%	
Total	5.43%	8.75%
Ports and Universities	8.75%	8.75%
Administrative Fee	0.18%	
Total	8.93%	8.75%
July - December 2019		
State and local governments	5.15%	8.59%
Administrative Fee	0.18%	
Total	5.33%	8.59%
Ports and Universities	8.59%	
Administrative Fee	0.18%	
Total	8.77%	8.59%

The City’s actual contributions to the plan were \$319,510 for the year ended December 31, 2019.

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, 2019, the state contributed \$72,959,897 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is \$2,520,215

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report’s Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.



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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month. Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the City’s proportionate share of the net pension liability would be if it were



calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.40%)	Current Discount Rate (7.40)%	1% Increase (8.40)%
PERS 1	\$ 1,460,430	\$ 1,166,181	\$ 910,881
PERS 2/3	2,917,041	380,338	(1,701,194)
LEOFF 1	(48,525)	(59,318)	(68,637)
LEOFF 2	(715,588)	(3,848,444)	(6,405,572)

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, 2019, the City reported a total pension liability of \$1,546,519 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 1,166,181
PERS 2/3	380,338
LEOFF 1	(59,318)
LEOFF 2	(3,848,444)

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer’s proportionate share	\$(59,318)	\$(3,848,444)
State’s proportionate share of the net pension asset associated with the employer	(401,226)	(2,520,215)
TOTAL	\$(460,544)	\$(6,368,659)

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.033329%	0.030327%	-0.003002%
PERS 2/3	0.042786%	0.039156%	-0.003630%
LEOFF 1	0.002948%	0.003001%	0.000053%
LEOFF 2	0.173905%	0.166118%	-0.007787%

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



LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, 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 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

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

	Pension Expense
PERS 1	\$(85,623)
PERS 2/3	99,496
LEOFF 1	(3,993)
LEOFF 2	91,793
TOTAL	\$101,673

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ 108,968	\$ -	\$ 276,930
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	9,739	-	6,340
Changes in proportion and differences between contributions and proportionate share of contributions	-	96,023	-	152,649
Contributions subsequent to the measurement date	95,578	182,439	-	162,980
Total	\$ 95,578	\$ 397,169	\$ -	\$ 598,899



	Deferred inflow of resources			
	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
Differences between expected and actual experience	\$ -	\$ 81,771	\$ -	\$ 69,205
Net difference between projected and actual investment earnings on pension plan investments	77,911	553,617	6,150	789,051
Changes of assumptions	-	159,577	-	433,073
Changes in proportion and differences between contributions and proportionate share of contributions		128,047	-	40,358
Total	<u>\$ 77,911</u>	<u>\$ 923,012</u>	<u>\$ 6,150</u>	<u>\$ 1,331,688</u>

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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	LEOFF 1	LEOFF 2
2020	\$ (17,199)	\$ (171,902)	\$ (1,428)	\$ (186,345)
2021	(40,740)	(288,902)	(3,148)	(382,153)
2022	(14,538)	(130,778)	(1,142)	(169,152)
2023	(5,434)	(72,207)	(432)	(85,473)
2024	-	(32,029)	-	(22,249)
Thereafter	-	(12,464)	-	(50,397)
Total	<u>\$ (77,911)</u>	<u>\$ (708,282)</u>	<u>\$ (6,150)</u>	<u>\$ (895,769)</u>

Note 7 - Defined Benefit Other Postemployment and Deferred Compensation Plans

Defined Benefit Other Postemployment Benefit (OPEB) Plan

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	\$ 360,608
OPEB assets	-
Deferred outflows of resources	6,027
Deferred inflows of resources	-
OPEB expenses/expenditures	(6,684)

OPEB Plan Description

- a. The LEOFF 1 OPEB plan is administered by the City as a single-employer defined benefit plan and is not administered through a qualifying trust.
- b. The plan is operated in accordance with the Revised Code of Washington (RCW) 41.26. The City provides lifetime medical care for one law enforcement officer employed prior to October 1, 1977. Under this requirement, the City provides medical, dental, long-term care insurance and reimbursement for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer or pension plan, and any other similar source. Medical insurance for the retiree is provided by the City's medical insurance program specified under the Law Enforcement Officer's Collective Bargaining Agreement. Under authorization of the LEOFF 1 Disability Board, direct payment may be made for some retiree medical expenses not covered by standard benefit plan provisions. When the member turned 65, he enrolled in Medicare Part A and B, and the City reimburses the member for his Part B premium. The City provides health coverage for the LEOFF 1 retiree through a



Medicare Advantage (Medicare Part C) plan administered by Premera and their LEOFF Health and Welfare Trust. The City also reimburses the retiree for a Medicare Part D (drug) plan administered by Aetna. In addition, the City reimburses the retiree the necessary usual and customary medical (out of pocket) expenses in excess of those covered by the applicable medical plan, including Part D monthly premiums. Dental benefits are covered too. The City also purchased a long-term care insurance plan from Unum Life Insurance Company. The retiree does not contribute towards the cost of his medical care.

- c. Employees covered by benefit terms at December 31, 2019 include one inactive employee. There are zero inactive employees entitled to benefits that are not currently receiving those benefits and there are zero active employees.
- d. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
- e. During the year ended December 31, 2019, the City paid \$11,938 in plan benefits as they became due.

Assumptions and Other Inputs

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

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

The discount rate source is the Bond Buyer General Obligation 20-Bond Municipal Index. Medical and long-term care costs were projected from June 30, 2018 to the measurement date of June 30, 2019 using the healthcare trend rates detailed in the 2018 LEOFF 1 Medical Benefits Actuarial Valuation Report, published by the Washington's Office of the State Actuary. A copy of the report can be found online at: <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>. At the end of 2019 the member age was 80.

Changes in the Total OPEB Liability

LEOFF 1 OPEB Plan	
Total OPEB Liability at 01/01/2019	\$ 376,868
Service Cost	-
Interest	14,080
Changes of benefit terms	-
Changes in experience data & assumptions	(32,702)
Benefit payments	2,362
Other changes	-
Total OPEB Liability at 12/31/2019	\$ 360,608



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

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Payments subsequent to the measurement date	(2,362)	-
TOTAL	\$ (2,362)	\$ -

Deferred outflows of resources of \$ 6,027 resulting from payments subsequent to the measurement date will be recognized as reduction of the total OPEB liability in the year ended December 31, 2019. There are no other amounts reported as deferred outflows and deferred inflows of resources related to OPEB.

Deferred Compensation

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

Note 8 - Risk Management

Washington Cities Insurance Authority

The City of Mukilteo is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 163 members.

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

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

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members’ deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members’ deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.



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

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

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

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

Unemployment

The City is a reimbursable employer with the Washington State Employment Security Department; therefore, it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2019:

	<u>2018</u>	<u>2019</u>
Liability - beginning	\$ 851	\$ -
Claims incurred	40,059	29,841
Claim payments	(40,059)	(29,841)
Adjustments	(851)	
Liability - ending	<u>\$ -</u>	<u>\$ -</u>

Dental and Vision

The City was self-insured for dental and vision benefits for employees covered through certain bargaining agreements through December 31, 2017. The plan is no longer active. While the plan was active it was administered by the City, with claims being processed by an independent claims' administrator. RCW 48.62 permits local governments to self-insure and Washington Administrative Code 200-100 regulates those programs. The City was required to maintain a reserve balance in an amount not less than eight weeks of program expenses for active plans. Below is an analysis of claims activity for the two years ended December 31, 2019:

	<u>2018</u>	<u>2019</u>
Liability - beginning	\$ 1,291	\$ -
Claims incurred	-	-
Claim payments	(1,291)	
Liability - ending	<u>\$ -</u>	<u>\$ -</u>

Note 9 - Lease Obligations

Operating lease

The City leases copy equipment under noncancelable operating leases. Total cost for such leases was \$9,869 for the year ended December 31, 2019. The future minimum lease payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2020	9,869
2021	9,347
2022	2,406
Total	<u>\$ 21,622</u>



Note 10 - Long-term Debt

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

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

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

As of December 31, 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, 2019, the City had the following general obligation bonds outstanding:

General Obligation Bonds	Sale Date	Original Borrowing	Average Coupon Interest Rate %	Maturity Date	Beginning Balance	Additions	Deletions	Outstanding Balance 12/31/2019
2009 LTGO Bonds - Community Center	09/10/2009	\$ 12,585,000	3.54%	12/01/2029	\$ 600,000	\$ -	\$ (600,000)	\$ -
2017 LTGO Advanced Refunding Bond	02/09/2017	7,980,000	2.40%	12/01/2029	\$ 7,800,000	-	(70,000)	7,730,000
					<u>\$ 8,400,000</u>	<u>\$ -</u>	<u>\$ (670,000)</u>	<u>\$ 7,730,000</u>

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

Year Ending	Bonds	
	Principal	Interest
December 31		
2020	\$ 695,000	\$ 185,520
2021	710,000	168,840
2022	730,000	151,800
2023	745,000	134,280
2024	760,000	116,400
2025-2029	4,090,000	299,040
Total	<u>\$ 7,730,000</u>	<u>\$ 1,055,880</u>



Note 11 - Construction and other significant commitments

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

Contracting Entity	Project Name	Balance
Dungeness Construction Corp.	Harbour Pointe Blvd. SW Widening Project	\$ 545,407
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	147,098
Herrera Environmental Consultants, Inc.	LID Retrofit Pre-Construction	123,644
Lakeside Industries	88th St. SW Pavement Preservation Project	45,554
Perteet	88th St. SW Pavement Preservation Project	39,735
Tuttle Engineering and Management, LLC	Harbour Pointe Blvd. SW Widening Project	34,158
Pellco Construction, Inc.	Crack Sealing and Pavement Repair Project	30,130
Tuttle Engineering and Management, LLC	61st Place West Retaining Wall Repair	25,931
PACE Engineers, Inc.	Decant Facility	21,286
		\$ 1,012,943

Note 12 - Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2019:

	Restated Balance 1/1/2019	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 8,400,000	\$ -	\$ (670,000)	\$ 7,730,000	\$ 695,000
Bond premium	11,866	-	(11,866)	-	-
Compensated absences	1,283,042	1,807,862	(1,434,247)	1,656,657	156,327
Pension obligation	1,839,565	1,250,979	(1,839,565)	1,250,979	-
Other postemployment benefit obligation	376,868	-	(16,260)	360,608	-
Governmental activities - long-term liabilities	<u>11,911,341</u>	<u>3,058,841</u>	<u>(3,971,938)</u>	<u>10,998,244</u>	<u>851,327</u>
Business-type activities:					
Compensated absences	125,818	150,292	(148,869)	127,241	12,007
Pension obligation	379,452	295,540	(379,452)	295,540	-
Business-type activities - long-term liabilities	<u>505,270</u>	<u>445,832</u>	<u>(528,321)</u>	<u>422,781</u>	<u>12,007</u>
Total long-term liabilities	<u>\$ 12,416,611</u>	<u>\$ 3,504,673</u>	<u>\$ (4,500,259)</u>	<u>\$ 11,421,025</u>	<u>\$ 863,334</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end \$13,019 of internal service funds compensated absences and \$68,356 of internal service funds pension obligations are included in the above amounts.

Note 13 - Contingencies and Litigation

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

The City participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor



agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

Note 14 - Interfund Balances and Transfers

Interfund transfers

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

Interfund transfers at December 31, 2019 were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Facility Renewal Fund</u>	
General Fund	\$ -	\$ -	\$ 40,000	\$ 40,000
Capital Projects Fund	432,700	880,345	-	1,313,045
Surface Water Fund	29,600	-	12,000	41,600
Total	<u>\$ 462,300</u>	<u>\$ 880,345</u>	<u>\$ 52,000</u>	<u>\$ 1,394,645</u>

The General Fund transferred \$40,000 to Facility Renewal Fund to fund electric parking stations at Lighthouse Park.

The Capital Projects Fund transferred \$432,700 to General Fund, primarily for the Pavement Preservation Project. The \$880,345 transfer to Debt Service Fund is for general obligation debt payments.

The \$29,600 transfer from Surface Water Fund to General Fund was to recover a portion of the Capital Project Engineer salary and benefits. The \$40,000 transfer from General Fund and \$12,000 transfer from the Surface Water Fund to Facility Renewal Fund are based on the cost allocation plan to support the operations.

Note 15 - Joint Ventures

Snohomish County Emergency Radio System

The Snohomish County Emergency Radio System (SERS) was formed in 1999 via an interlocal agreement among the cities of Brier, Edmonds, Everett, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, Town of Woodway, and Snohomish County to provide enhanced emergency communication services to Snohomish County. Snohomish County Fire District No. 1 joined after the original formation. SERS is responsible for design, development, financing, acquisition, operation, maintenance, and repair of the 800 Megahertz emergency radio system. A 10-member Board of Directors is appointed by the cities and County to govern SERS. Each of the cities and the County are represented in the Board. Separate financial statements for the joint venture may be obtained from Snohomish County, Finance Department, 3000 Rockefeller Avenue, Everett, WA 98201.

As of January 1, 2019 SERS merged with Snohomish County 911 (SNO911) and is known as SNO911 Wireless Technology Department.



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 \$871,691 on December 31, 2019.

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 \$2,236. 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 Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 98204 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.



Note 16 - Other Disclosures

Prior period adjustment and change in accounting principle

The financial statements have been restated to correct items misclassified between funds as pension liabilities, deferred inflows of resources related to pension, and deferred outflows of resources related to pension. The misclassification occurred in years prior to 2018 and became apparent when the City reevaluated the allocation of pension plans across government functions in 2019. The City now allocates all PERS plan activity (PERS1, PERS2, and PERS3) based on the current City employee composition assuming it will reflect the approximate composition of all City employees, past and present, covered by the plans.

The net effect of these misstatements in the fund statements are as follows for the year ended December 31, 2019:

Surface Water Management fund, decrease in net position of \$322,326
Internal Service funds, decrease in net position of \$72,182

The net effect of these misstatements in the government-wide statements are as follows for the year ended December 31, 2019:

Governmental, increase in net position of \$322,326
Business-type activities, decrease in net position of \$322,326

The adjustment made in the fund statements due to prior period adjustments are as follows for the year ended December 31, 2019:

Surface Water Management fund, decrease in net position of \$75,978
Internal Service funds, decrease in net position of \$22,658

The adjustment made in the government-wide statements due to the prior period adjustments are as follows for the year ended December 31, 2019:

Governmental, increase in net position of \$75,978
Business-type activities, decrease in net position of \$75,978

The adjustment made in the fund statements due to change in accounting principle are as follows for the year ended December 31, 2019:

Surface Water Management fund, decrease in net position of \$246,348
Internal Service funds, decrease in net position of \$49,524

The adjustment made in the government-wide statements due to change in accounting principle are as follows for the year ended December 31, 2019:

Governmental, increase in net position of \$246,348
Business-type activities, decrease in net position of \$246,348

Subsequent Event – COVID-19

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



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

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

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

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

Depending on the amount of federal grant funding the City is able to receive, it could possibly require a Single Audit for fiscal year 2020.

The City had two Government-Sponsored Enterprise Bonds called early in 2020 related to the impacts of the public health emergency on the market.

The Washington Employment Security Department was the target of an international unemployment fraud scheme. The City of Mukilteo received sixteen fraudulent claims for employees; all claims were disputed and no funds were paid under the fraudulent claims.

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



Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

Streets:

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

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

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

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

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

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

The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There are two State highways (SR 525 and SR 526) which are considered arterial streets within the City limits: these pavement surfaces are maintained by Washington State Department of Transportation (WSDOT). The entire pavement system within the City of Mukilteo is composed of approximately 62.4 miles of paved surface and is divided into 409 pavement management segments. To assist in planning the surfacing needs, the City streets were grouped by functional class. The table below shows the City’s pavement mileage by functional classification:

**Table 2
Pavement Mileage by Functional Class**

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

One of the key elements of a pavement repair strategy is to keep streets that are in the Very Good or Good categories from deteriorating. This is particularly true for streets in the Good range, because they are at the



point where pavement deterioration accelerates if left untreated. However, the deterioration rate for pavements in the Poor to Very Poor range is relatively flat, and the condition of these streets will not decline significantly if repairs are delayed. As more Very Good streets deteriorate into the Good, Poor, and Very Poor categories, the cost of deferred maintenance will continue to increase.

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

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2014 to 2019.

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



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

For the Year Ended December 31, 2019

	General Fund			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	\$ 7,442,000	\$ 7,442,000	\$ 7,481,975	\$ 39,975
Sales taxes	3,663,000	3,663,000	4,054,104	391,104
Other taxes and assessments	2,945,000	2,945,000	2,852,003	(92,997)
Licenses and permits	1,611,900	1,611,900	1,529,088	(82,812)
Intergovernmental	1,089,400	1,089,400	1,406,576	317,176
Charges for services	1,192,800	1,243,800	1,335,941	92,141
Fines and forfeitures	212,850	212,850	139,008	(73,842)
Rents and leases	1,270,900	1,270,900	1,146,464	(124,436)
Investment earnings	82,500	82,500	190,656	108,156
Contributions and donations	15,500	15,500	45,036	29,536
Miscellaneous revenues	69,500	69,500	20,855	(48,645)
Total revenues	19,595,350	19,646,350	20,201,706	555,356
EXPENDITURES				
General government	4,137,378	4,192,596	3,986,660	(205,936)
Public safety	10,633,987	10,682,619	10,806,090	123,471
Transportation	2,389,550	2,389,550	1,986,295	(403,255)
Natural and economic environment	1,469,800	1,435,594	1,204,349	(231,245)
Culture and recreation	1,818,150	1,912,706	1,813,612	(99,094)
Debt service:				
Capital outlay	50,000	50,000	15,133	(34,867)
Total expenditures	20,498,865	20,663,065	19,812,139	(850,926)
Excess of revenues over expenditures	(903,515)	(1,016,715)	389,567	1,406,282
OTHER FINANCING SOURCES (USES)				
Transfers in	474,300	474,300	462,300	(12,000)
Transfers out	(40,000)	(40,000)	(40,000)	-
Total other financing sources (uses)	434,300	434,300	422,300	(12,000)
Net change in fund balance	(469,215)	(582,415)	811,867	1,394,282
Fund balance - beginning	5,186,808	5,186,808	5,186,808	-
Fund balance - ending	\$ 4,717,593	\$ 4,604,393	\$ 5,998,675	\$ 1,394,282



Schedule of Changes in Total OPEB Liability and Related Ratios

**LEOFF 1 Other Postemployment Benefits Plan
For the year ended December 31, 2019
Last 10 Fiscal Years***

	<u>2019</u>	<u>2018</u>
Total OPEB liability - beginning	\$ 376,868	\$ 372,278
Service cost	-	-
Interest	14,080	12,933
Changes in benefit terms	(32,702)	-
Differences between expected and actual experience	-	-
Changes of assumptions	2,362	(7,529)
Benefit payments	-	(814)
Other changes	-	-
Total OPEB liability - ending	<u>\$ 360,608</u>	<u>\$ 376,868</u>
 Covered-employee payroll	 N/A	 N/A
 Total OPEB liability as a % of covered payroll	 N/A	 N/A

Notes to Schedule:

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



City of Mukilteo
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.03033%	0.03333%	0.03197%	0.03279%	0.033352%	0.031653%
Employer's proportionate share of the net pension liability	\$ 1,146,181	\$ 1,488,484	\$ 1,517,145	\$ 1,760,924	\$ 1,744,620	\$ 1,594,535
Covered payroll	\$ 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	35.41%	40.72%	38.31%	45.51%	47.66%	48.46%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.03916%	0.04279%	0.03965%	0.04064%	0.039290%	0.036539%
Employer's proportionate share of the net pension liability	\$ 380,238	\$ 730,533	\$ 1,377,752	\$ 2,046,192	\$ 1,403,854	\$ 738,585
Covered payroll	\$ 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	11.55%	19.98%	35.33%	53.66%	39.93%	23.61%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%	61.19%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo
Schedule of Proportionate Share of the Net Pension Liability
LEOPF 1
As of June 30, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.03300%	0.00295%	0.00376%	0.00470%	0.004645%	0.004607%
Employer's proportionate share of the net pension liability	\$ (59,318)	\$ (53,521)	\$ (57,063)	\$ (48,382)	\$ (55,983)	\$ (55,873)
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	148.78%	144.42%	135.96%	123.74%	127.36%	61.19%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo
Schedule of Proportionate Share of the Net Pension Liability
LEOPF 2
As of June 30, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.16612%	0.17391%	0.16932%	0.17509%	0.176099%	0.185026%
Employer's proportionate share of the net pension liability	\$ (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	\$ (2,520,215)	\$ (2,286,030)	\$ (1,524,105)	\$ (665,907)	\$ (1,202,242)	\$ -
Total	\$ (6,368,659)	\$ (5,816,681)	\$ (3,873,648)	\$ (1,682,283)	\$ (3,020,513)	\$ (2,455,375)
Covered payroll	\$ 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	-66.48%	-61.74%	-44.28%	-19.21%	-35.31%	-48.99%
Plan fiduciary net position as a percentage of the total pension liability	119.43%	118.50%	113.36%	106.04%	111.67%	61.19%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.



City of Mukilteo
Schedule of Employer Contributions
PERS 1
As of December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 206,644	\$ 218,387	\$ 215,055	\$ 186,362	\$ 158,036	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(206,644)	(218,387)	(215,055)	(186,362)	(158,036)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 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	6.19%	6.33%	5.37%	4.86%	4.51%	16.72%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 345,250	\$ 323,537	\$ 281,188	\$ 253,930	\$ 209,660	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(345,250)	(323,537)	(281,188)	(253,930)	(209,660)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 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	103.4%	9.38%	7.08%	6.72%	6.13%	17.59%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

City of Mukilteo
Schedule of Employer Contributions
LEOFF 2
As of December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 319,510	\$ 302,830	\$ 283,092	\$ 271,069	\$ 263,284	\$ 538,081
Contributions in relation to the statutorily or contractually required contributions	(319,510)	(302,830)	(283,092)	(271,069)	(263,284)	(538,081)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 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	5.27%	5.29%	5.41%	5.28%	5.29%	11.23%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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