



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

## **Financial Statements Audit Report**

# **City of Mukilteo**

**Snohomish County**

**For the period January 1, 2016 through December 31, 2016**

**Published November 16, 2017**

**Report No. 1020224**





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

November 16, 2017

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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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**City of Mukilteo  
Snohomish County  
January 1, 2016 through December 31, 2016**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Mukilteo. The State Auditor's Office has reviewed the status as presented by the City.

<b>Audit Period:</b> 2015	<b>Report Ref. No:</b> 1018111	<b>Finding Ref. No:</b> 2015-001
<b>Finding Caption:</b> The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.		
<b>Background:</b> In 2015, the City experienced turnover in key accounting positions including the finance director, accounting manager and staff accountant. The City filled the finance director and staff accountant positions in 2015 and accounting manager position in 2016; however, the turnover in personnel delayed the preparation of the 2015 financial statements because employees responsible for preparing and maintaining key information were new to their positions at the City.  Our audit found the current staff was knowledgeable of accounting practices and had significantly improved the financial reporting of the City as well as overall internal controls. As a result of those improvements, the City identified an error in a prior reporting period that could only be corrected by reporting a prior period adjustment.  Although the City corrected the identified error through a prior period adjustment, we identified the following material weakness in internal controls: <ul style="list-style-type: none"><li>• The City expensed the full amount of a public works project instead of breaking out the difference between capitalized costs, repairs, and maintenance costs. The City identified the error after the project was considered fully complete and properly recorded a 2014 prior period adjustment to restate beginning net position by \$323,110 in the Surface Water Fund and Business Type Activity opinion units. The audit also found the City did not perform any 2015 bank reconciliations until May 2016.</li></ul> We also identified deficiencies in internal controls over accounting and financial reporting that represent a significant deficiency in internal controls. The City did not have adequate internal controls to ensure City accounting records were reconciled to monthly bank statements timely.		

Additionally, internal controls did not allow the City to produce financial statements by the annual report filing deadline as prescribed by state law (RCW 43.09.230).

**Status of Corrective Action: (check one)**

☒ Fully  
Corrected

☐ Partially  
Corrected

☐ Not Corrected

☐ Finding is considered no  
longer valid

**Corrective Action Taken:**

*The City continues to improve its internal controls over accounting and financial reporting. The City finance staff is knowledgeable regarding GAAP, GASB and the BARS manual. The City has made significant improvements in its internal controls over the preparation and review of financial statements and is continually improving our processes to ensure timely and accurate financial reporting.*

*The City has diligently worked on capital asset reconciliations, monitoring and reporting, noting that we currently have an accurate and complete list of assets in the fixed asset module.*

*The City did perform bank reconciliations in 2015; however they were not completed in a timely manner due to staff turnover. The City has a monthly process to ensure timely reconciliations. With staff stabilization and now being caught up with our audits, we are able to reconcile our bank statements in a timely manner.*

**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  
Snohomish County  
January 1, 2016 through December 31, 2016**

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, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 6, 2017.

**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.



Pat McCarthy

State Auditor

Olympia, WA

November 6, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Mukilteo Snohomish County January 1, 2016 through December 31, 2016**

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, Snohomish County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 11.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial



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

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

## **Opinion**

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, 2016, 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.

## **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 on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

November 6, 2017

## **FINANCIAL SECTION**

**City of Mukilteo  
Snohomish County  
January 1, 2016 through December 31, 2016**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of the Governmental Funds to the Statement of Activities – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds –  
2016

Statement of Cash Flows – Proprietary Funds – 2016

Statement of Net Position – Fiduciary Funds – 2016

Notes to Financial Statements – 2016

### **REQUIRED SUPPLEMENTARY INFORMATION**

Condition Assessment and Preservation of Infrastructure Eligible for Modified  
Accounting Approach – 2016

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual  
General Fund – 2016

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual  
Recreation and Cultural Services Fund – 2016

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual  
Emergency Medical Services Fund – 2016

Schedule of Funding Progress of Other Post-Employment Benefits – 2016

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, LEOFF 1,  
LEOFF 2 – 2016

Schedule of Employer Contributions – PERS 1, PERS 2/3, LEOFF 1, LEOFF 2 – 2016

## **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, 2016. 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 \$188,631,186 (net position) for the calendar year reported.
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$176,913,140 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets, and grant money received in advance related to capital projects.
  - (2) Net position of \$4,712,812 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$7,005,234 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 \$10,609,086 this year. This compares to the prior year ending fund balance of \$10,816,937 showing a decrease of \$207,851 or 1.92% during the current year.
- At the end of the current calendar year, unassigned fund balance for the General Fund was \$1,477,752, or 10.97% of total General Fund expenditures.
- Overall, the City continues to maintain a strong financial position.

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

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management'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 police, fire, and administration. 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. These enterprise funds encompass the same functions reported as business-type activities in the government-wide statements. The internal service funds include an equipment rental 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, the Recreation and Cultural Services Fund, and the Emergency Medical Services Fund. Also included is a Condition Assessment for infrastructure accounted for using the modified approach, a Schedule of Funding Progress of other post-employment benefits for 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 City's net position at calendar year-end was \$188,631,186 . The following table provides a summary of the City's net position:

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current assets	\$ 15,370,524	\$ 14,442,023	\$ 1,778,261	\$ 1,234,522	\$ 17,148,785	\$ 15,676,545
Noncurrent assets						
Pension	1,066,758	1,874,253	-	-	1,066,758	1,874,253
Other	551,632	679,215	-	-	551,632	679,215
Capital	180,972,249	180,905,952	4,491,392	4,447,579	185,463,641	185,353,531
Total assets	197,961,163	197,901,443	6,269,653	5,682,101	204,230,816	203,583,544
Deferred Outflows:						
Pension	1,373,204	738,938	71,699	43,667	1,444,903	782,605
Total deferred outflows	1,373,204	738,938	71,699	43,667	1,444,903	782,605
Liabilities:						
Current liabilities	1,404,768	1,030,783	129,049	93,981	1,533,817	1,124,764
Long-term liabilities	14,369,708	14,303,710	298,460	222,545	14,668,168	14,526,255
Total liabilities	15,774,476	15,334,493	427,509	316,526	16,201,985	15,651,019
Deferred Inflows:						
Pension	55,074	985,243	12,474	45,346	67,548	1,030,589
Grants received in advance	775,000	-	-	-	775,000	-
Total deferred inflows	830,074	985,243	12,474	45,346	842,548	1,030,589
Net position:						
Net investment in capital assets	172,421,748	171,018,043	4,491,392	4,447,579	176,913,140	175,465,622
Restricted	4,712,812	5,415,965	-	-	4,712,812	5,415,965
Unrestricted	5,595,257	5,886,637	1,409,977	916,317	7,005,234	6,802,954
Total net position	\$182,729,817	\$182,320,645	\$ 5,901,369	\$ 5,363,896	\$188,631,186	\$187,684,541

The City continues to maintain a high current ratio. The current ratio compares current assets to current liabilities and is an indication of the ability to pay current obligations. The current ratio for governmental activities is 10.94 to 1 at December 31, 2016. The current ratio for the business-type activities at December 31, 2016 is 13.78 . For the City overall, the current ratio is 11.18 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased \$409,172 for governmental activities and increased by \$537,473 for business-type activities. The City's overall financial position increased during calendar year 2016 by \$946,645 .

Note that 94.36% 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 76.11% of its net position as its capital investment. Capital assets in the business-type activities provide surface water services, and generate revenues for this fund. Overall, 93.79% of the City's total net position is included 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, 2016 and 2015:

### **Governmental Activities Analysis**

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. Property taxes received in 2016 were \$85,150 more than 2015, a 1.28% change. Sales taxes increased \$41,221 over 2015 or 1.38%. The economy is improving in the City; not only have we seen an increase in retail sales, but there has also been an increase in sales tax generated by new construction activities in the City.

In total, taxes make up 73.56% of the total revenues stream as compared to 68.83% in 2015.

The operating grants of \$449,598 for general government programs included the following:

- Liquor Board Taxes from the State of Washington: \$180,038
- Liquor Excise Tax from the State of Washington: \$97,512
- PUD Privilege Tax from Snohomish County PUD: \$114,554
- Federal grants \$50,927
- State grants \$5,567
- Private grant \$1,000

The primary source of the operating grants of \$483,754 for transportation programs is the City's share of the State's Motor Vehicle Fuel Tax.

The City reported investment interest earned in the amount of \$22,927 as compared to \$77,301 in 2015. Investment interest decreased due to a new accounting standard issued by the Governmental Accounting Standards Board (GASB 72) that requires investments to be valued at fair value. A decrease in fair value will cause a decrease in investment interest.

Note that program revenues cover 73.59% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 26.41% 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**

Of the City's governmental activities functions, 52.13% of the total costs relate to public safety in 2016 as compared to 48.73% in 2015. Culture and recreation expenses make up 12.90% as compared to 14.17% in 2015.

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.

	<b>Governmental Activities</b>			
	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
General government	\$ 3,573,082	\$ 3,844,236	\$ 1,251,600	\$ 1,834,841
Public safety	10,348,943	9,952,844	9,344,992	8,969,101
Transportation	1,592,286	1,824,311	904,744	80,600
Natural and economic environment	1,410,463	1,524,567	1,366,576	1,522,067
Culture and recreation	2,561,585	2,893,876	1,375,925	1,809,659
Interest on long-term debt	363,963	382,613	363,963	382,613
Total	<u>\$ 19,850,322</u>	<u>\$ 20,422,447</u>	<u>\$ 14,607,800</u>	<u>\$ 14,598,881</u>

### Business-Type Activities Analysis

The City maintains a single enterprise fund, for surface water management. In this fiscal year, operating revenues were \$2,397,269 and operating expenses were \$2,088,179, resulting in an operating gain of \$309,090.

Revenues from charges for services increased \$1,052,348 or 78.25% greater in 2016 than 2015.

Operations and maintenance costs increased \$461,082 or 34.45% above the 2015 amount. Depreciation expense decreased 55,897 or 16.22% in 2016 as compared to 2015. In this year, the Surface Water Fund transferred \$12,460 of resources to other funds. At December 31, 2016, net position totals \$5,901,369. Of this amount, \$4,491,392 or 76.11% 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 \$10,609,086 as compared to the amount of \$10,816,937 at December 31, 2015.

The restricted amount at December 31, 2016 was \$5,427,080, relating primarily to capital improvements and tourism.

The committed amount of \$1,060,732 is primarily for a contingency reserve of \$1 million.

The General Fund reports an assigned fund balance of \$2,421,804 set aside for operating reserves.

**The General Fund** – The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The General Fund's fund balance decreased by \$326,555 or 6.04% in 2016. In calendar year 2015, the fund balance decreased \$26,408 or 0.49%.

Total revenues increased \$612,401 or 4.60% in 2016. Total taxes increased \$133,710 or 1.28%.

Total licenses and permits were up \$159,721 or 12.38% above the 2015 amount and intergovernmental revenue increased \$186,022 or 43.83% above the 2015 revenue amount.



Total charges for services were consistent with prior year revenue. Fines and forfeitures decreased based on a decrease in actual receipts from Snohomish County. Rents and leases increased due to an increase in commuter parking fee rates and the paid parking program was in effect for a full year.

In 2016, total expenditures increased \$111,174 or 0.83% above the 2015 amount. The general government expenditures increased \$485,047 or 12.18%.

In addition to the General Fund, the City reported three other major funds: Recreation and Cultural Services Fund, Emergency Medical Services Fund, and Capital Projects Fund.

**The Recreation and Cultural Services Fund** - This fund is financed from community center activity fees, rentals, and a subsidy from the General Fund to finance the operations and maintenance of the Rosehill Community Center's building and programs.

During 2016, this fund recognized \$587,920 in revenues, primarily related to rentals and leases. In addition, the General Fund transferred \$137,553 to this fund to eliminate the 2016 deficit. This fund expended \$725,473 which is an increase of \$4,383 or up 0.61% from the 2015 amount.

Because of the transfer from the General Fund to the Recreation and Cultural Services Fund, it reported ending fund balance of zero, the same amount as December 31, 2015.

**Emergency Medical Services Fund** - This fund is financed from a voter-approved tax levy to finance advanced life support (ALS) services as well as ambulance transport fees.

During 2016, this fund recognized \$2,403,754 in revenues, primarily property taxes and charges for services. This amount is \$111,068 or 4.84% more than the calendar year 2015 amount. This increase is related to a change in the collection of ambulance transport fees which are now all recorded in the Emergency Medical Services Fund. Some of these revenues include General Fund activities from the Fire Department and administrative services so a transfer of \$74,929 was made to the General Fund.

**Capital Projects Fund** - This fund combines previously separate funds related to capital projects; Park Acquisition and Development, Transportation Impact Fee, Real Estate Excise Tax I, Real Estate Excise Tax II, and Municipal Facilities.

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants.

Park acquisition and development is partially financed from park mitigation fees. During 2016, \$12,190 of such revenues was recognized. Mitigation fees have decreased from prior year because of a reduction in the amount of new construction and redevelopment in the city.

Transportation projects are partially funded through street mitigation fees collected by the City as authorized by the State Environmental Policy Act and the Growth Management Act to help offset the cost of roads and other transportation infrastructure resulting from new growth and development. In 2016 the City recognized \$49,899 in street mitigation fees as compared to \$1,199,166 in 2015. This decrease was due to fees received for the Harbour Reach Drive Extension project in 2015.

Other capital projects are financed mainly through revenue the City receives from taxes levied on the sale of real estate and may only be used to fund capital projects. During 2016, the City recognized real estate excise tax collected in the amount of \$2,216,722 as compared to \$1,394,335 in 2015 due to the increase in property values and property sales.



In 2016 capital outlay projects totaled \$778,040 , while non-capital maintenance and other costs totaled \$542,208 . Ending fund balance in 2016 is \$5,187,843 . Capital outlay increased from 2015 primarily related to the Harbour Reach Extension project and the Waterfront Promenade project.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's revenue budget was amended upward in calendar year 2016 by \$6,000 or less than 0.04%. In total, the City realized 100.78% of estimated revenues.

Total tax revenue was \$120,908 below the budget. Property tax revenue was \$11,660 below the final budget. Sales tax revenue was \$16,337 below the final budget, and other taxes and assessments were \$92,911 below the final budget.

With regard to General Fund expenditure budget, it was amended upward \$36,250 or 0.26%.

The public safety budget was underspent by \$339,844 or 4.43%. The natural and economic environment was underspent by \$173,287 , or 13.11% the culture and recreation budget was underspent by \$125,557 , or 19.51% and the general government budget was overspent by \$390,357 , or 9.57% primarily related to the reclassification of interfund services as expenditures rather than transfers out.

## 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, 2016 was a 0.821% increase for governmental activities and an 0.985% increase for business-type activities. The overall increase was 0.825% 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, 2016 and 2015.

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Nondepreciable assets:						
Land	\$ 32,385,845	\$ 31,628,524	\$ 150,000	\$ 150,000	\$ 32,535,845	\$ 31,778,524
Right of way	10,615,041	10,580,181	-	-	10,615,041	10,580,181
Art collections	287,624	288,474	-	-	287,624	288,474
Construction in progress	1,431,761	653,720	203,770	181,800	1,635,531	835,520
Total nondepreciable assets	44,720,271	43,150,899	353,770	331,800	45,074,041	43,482,699
Depreciable assets:						
Buildings	27,942,823	27,952,020	-	-	27,942,823	27,952,020
Other improvements	9,994,494	10,615,428	7,816,677	7,501,154	17,811,171	18,116,582
Machinery and equipment	9,818,251	9,152,892	258,975	258,970	10,077,226	9,411,862
Infrastructure	265,040,536	264,245,595	-	-	265,040,536	264,245,595
Total depreciable assets	312,796,104	311,965,935	8,075,652	7,760,124	320,871,756	319,726,059
Less accumulated depreciation	176,544,126	174,210,882	3,938,030	3,644,347	180,482,156	177,855,229
Book value - depreciable assets	136,251,978	137,755,053	4,137,622	4,115,779	140,389,600	141,870,830
Percentage depreciated	56%	56%	49%	47%	56%	56%
Book value - all assets	\$ 180,972,249	\$ 180,905,952	\$ 4,491,392	\$ 4,447,579	\$ 185,463,641	\$ 185,353,529

At December 31, 2016, the depreciable capital assets for governmental activities were 56% depreciated, which is consistent with capital assets as of December 31, 2015.

#### Governmental Activities

The increase to the construction in progress consisted primarily of:

- SR526 Bike-Pedestrian Path to Boeing Project
- Harbour Reach Extension Project
- Harbour Pointe Blvd. Widening Project
- Waterfront Promenade Design

#### Business Activities

The increase to the construction in progress consisted primarily of:

- 61<sup>st</sup> Street Culvert Replacement Project
- 61<sup>st</sup> Street Retaining Wall Project

### Long-Term Debt

The following table reports outstanding long-term debt at both December 31, 2016 and 2015.

	Outstanding Obligations					
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 9,105,000	\$ 9,650,000	\$ -	\$ -	\$ 9,105,000	\$ 9,650,000
Compensated absences	952,975	982,002	59,863	52,679	1,012,838	1,034,681
Pension obligation	3,568,519	2,978,607	238,597	169,866	3,807,116	3,148,473
Other post-employment benefits	271,481	222,890	-	-	271,481	222,890
Total	<u>\$ 13,897,975</u>	<u>\$ 13,833,499</u>	<u>\$ 298,460</u>	<u>\$ 222,545</u>	<u>\$ 14,196,435</u>	<u>\$ 14,056,044</u>

The general obligation bonds are reported gross (unamortized bond premium is not included). Additional information on long-term debt can be found in the notes to the financial statements. The 2016 principal payment of \$545,000 reduced the outstanding bond debt to \$9,105,000 as of the end of 2016. Annual principal and interest payments are made from funding provided by the Capital Projects Fund.

See the economic conditions discussion below for more information regarding the City's outstanding debt.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2017 budget is a continuation of our plan to keep the City on solid ground for providing services to our citizens during 2017 and for years to come. The plan for the City recognizes the financially unsettling times we have experienced as a community, but also recognizes the fact that we cannot control the economy as a whole. With this being said, the 2017 Budget lays out the City's vision for achieving our immediate priorities and implementing our long-term goals beyond 2017.

The budget emphasizes working with the resources that we have. As it stands now, Mukilteo is in good economic shape. Homes values are rising and unemployment is low. The City continues to spend to keep its infrastructure in good shape.

Standard & Poor's most recent rating was in October, 2015. The City received a AAA rating. 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);

- Strong management, with “good” financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level;
- Very strong liquidity, with total governmental available cash of 45% of total governmental fund expenditures and access to external liquidity we consider strong;

Much time will be spent in 2018 continuing to work on setting priorities, understanding details, enhancing our long-range financial plan, and updating the Comprehensive and Capital Facilities Plans, all while looking to the long term health, public safety, and viability of our City.

**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 Jennifer 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 2017 budget plan recognizes that 2016 provided a reason for the City to continue its optimism for the recovery of the economy. The magnitude of the recent economic downturn resulted in a budget balancing strategy that included the use of carefully managed expenditures, anticipated revenue increases, and the prudent use of fund reserves.

### **2017 Budget Overview**

Budgeted revenues and transfers in for all funds total \$28.5 million. Total budgeted expenditures and transfers out total \$32.1 million.

In keeping with the City’s fiscally conservative approach, the budget includes an estimated ending balance in the General Fund of \$4,314,336, which equals 30% of 2016 General Fund expenditures and transfers out

### **Requests for Information**

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

**Statement of Net Position**  
December 31, 2016

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 8,331,370	\$ 1,202,596	\$ 9,533,966
Investments	5,392,023	-	5,392,023
Receivables (net of allowance for uncollectible)	425,184	415,519	840,703
Grants receivable	103,377	160,146	263,523
Taxes receivable	1,116,711	-	1,116,711
Prepays	1,859	-	1,859
Noncurrent assets:			
Investment in joint ventures	551,632	-	551,632
Net pension asset	1,066,758	-	1,066,758
Capital assets not being depreciated:			
Land	32,385,845	150,000	32,535,845
Right of way easements	10,615,041	-	10,615,041
Art collections	287,624	-	287,624
Construction in progress	1,431,761	203,770	1,635,531
Capital assets, (net of accumulated depreciation):			
Buildings	21,237,879	-	21,237,879
Other improvements	5,673,979	4,045,668	9,719,647
Machinery and equipment	3,698,954	91,954	3,790,908
Infrastructure	105,641,166	-	105,641,166
Total Assets	<u>197,961,163</u>	<u>6,269,653</u>	<u>204,230,816</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Pension obligation	<u>1,373,204</u>	<u>71,699</u>	<u>1,444,903</u>
Total deferred outflows of resources	<u>1,373,204</u>	<u>71,699</u>	<u>1,444,903</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	713,159	93,904	807,063
Accrued wages	446,010	35,145	481,155
Deposits payable	245,599	-	245,599
Unearned revenue	251,232	-	251,232
Noncurrent liabilities:			
Due within one year	629,605	3,279	632,884
Due in more than one year	<u>13,488,871</u>	<u>295,181</u>	<u>13,784,052</u>
Total Liabilities	<u>15,774,476</u>	<u>427,509</u>	<u>16,201,985</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Pension obligation	55,074	12,474	67,548
Grants received in advance	<u>775,000</u>	<u>-</u>	<u>775,000</u>
Total deferred inflows of resources	<u>830,074</u>	<u>12,474</u>	<u>842,548</u>
<b>NET POSITION</b>			
Net investment in capital assets	172,421,748	4,491,392	176,913,140
Restricted for:			
Capital	4,192,833	-	4,192,833
Reserves	101,098	-	101,098
Other purposes	418,881	-	418,881
Unrestricted	<u>5,595,257</u>	<u>1,409,977</u>	<u>7,005,234</u>
Total Net Position	<u>\$ 182,729,817</u>	<u>\$ 5,901,369</u>	<u>\$ 188,631,186</u>

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



# **Statement of Activities** For the year ended December 31, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Functions/Programs:</b>						<b>Total</b>
Primary government:						
Governmental activities:						
General government	\$ 3,573,082	\$ 1,778,903	\$ 449,598	\$ 92,981	\$ (1,251,600)	\$ (1,251,600)
Public safety	10,348,943	749,886	254,065	-	(9,344,992)	(9,344,992)
Transportation	1,592,286	54,861	483,754	148,927	(904,744)	(904,744)
Natural and economic environment	1,410,463	-	43,887	-	(1,366,576)	(1,366,576)
Culture and recreation	2,561,585	1,170,996	14,664	-	(1,375,925)	(1,375,925)
Interest on long-term debt	363,963	-	-	-	(363,963)	(363,963)
Total governmental activities:	19,850,322	3,754,646	1,245,968	241,908	(14,607,800)	(14,607,800)
Business-type activities:						
Surface water	2,088,180	2,397,269	-	240,844	-	549,933
Total business-type activities:	2,088,180	2,397,269	-	240,844	-	549,933
Total primary government	\$ 21,938,502	\$ 6,151,915	\$ 1,245,968	\$ 482,752	(14,607,800)	(14,057,867)
General revenues:						
Property taxes					6,758,342	6,758,342
Sales taxes					3,026,360	3,026,360
Other taxes					5,119,124	5,119,124
Interest earnings					22,927	22,927
Miscellaneous Revenue					77,759	77,759
Transfers					12,460	(12,460)
Total general revenues and transfers					15,016,972	15,004,512
Change in net position					409,172	946,645
Net position - beginning					182,320,645	187,684,541
Net position - ending					\$ 182,729,817	\$ 188,631,186

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



**Balance Sheet - Governmental Funds**  
**December 31, 2016**

	General Fund	Recreation & Cultural Services Fund	Emergency Medical Services Fund	Capital Projects Fund	Total Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,364,331	\$ 279,160	\$ 21,820	\$ 4,987,731	\$ 289,907	\$ 6,942,949
Investments	3,450,685	-	-	962,665	-	4,413,350
Receivables (net of allowance for uncollectible)	226,893	37,208	155,729	-	2,338	422,168
Grants receivable	14,816	11,801	-	35,201	7,278	69,096
Taxes receivable	778,790	-	15,330	213,928	108,664	1,116,712
Prepaid items	1,708	-	-	-	-	1,708
Total assets	5,837,223	328,169	192,879	6,199,525	408,187	12,965,983
<b>LIABILITIES</b>						
Accounts payable	211,251	18,036	12,834	225,353	84,834	552,308
Accrued wages	338,882	19,822	67,667	-	12,624	438,995
Deposits payable	188,258	46,013	-	11,329	-	245,600
Unearned revenue	6,934	244,298	-	-	-	251,232
Total liabilities	745,325	328,169	80,501	236,682	97,458	1,488,135
<b>DEFERRED INFLOW OF RESOURCES</b>						
Unavailable revenue - receivables	11,160	-	75,324	-	7,278	93,762
Grants received in advance	-	-	-	775,000	-	775,000
Total deferred inflows	11,160	-	75,324	775,000	7,278	868,762
<b>FUND BALANCES</b>						
Nonspendable	\$ 1,708	\$ -	\$ -	\$ -	\$ -	\$ 1,708
Restricted	118,742	-	37,054	4,967,833	303,451	5,427,080
Committed	1,060,732	-	-	-	-	1,060,732
Assigned	2,421,804	-	-	220,010	-	2,641,814
Unassigned	1,477,752	-	-	-	-	1,477,752
Total fund balances	\$ 5,080,738	\$ -	\$ 37,054	\$ 5,187,843	\$ 303,451	\$ 10,609,086
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.						177,902,644
Other long-term assets are not available to pay for current period expenditures and therefore, are not reported in the funds.						551,632
Other items related to pension activity that are not financial resources and therefore, are not reported in the funds.						2,373,768
Deferred inflows related to unearned revenue that are not available in the current period and therefore, are not reported in the funds.						93,762
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.						(14,059,591)
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.						5,258,516
Net position of governmental activities						\$ 182,729,817

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, 2016

	General Fund	Recreation & Cultural Services Fund	Emergency Medical Services Fund	Capital Projects Fund	Total Non-Major Funds	Total Governmental Funds
<b>REVENUES</b>						
Property taxes	\$ 4,928,340	\$ -	\$ 1,830,003	\$ -	\$ -	\$ 6,758,343
Sales taxes	2,777,781	-	-	-	248,579	3,026,360
Other taxes and assessments	2,848,846	-	-	2,216,722	53,555	5,119,123
Licenses and permits	1,450,227	1,250	-	-	-	1,451,477
Intergovernmental	610,441	51,101	-	152,936	472,541	1,287,019
Charges for services	353,332	88,949	573,552	62,089	4,963	1,082,885
Fines and forfeitures	160,724	-	-	-	-	160,724
Rents and leases	656,169	436,790	-	-	-	1,092,959
Interest earnings	67,585	-	199	(28,843)	-	38,941
Contributions and donations	13,229	5,750	-	-	-	18,979
Miscellaneous revenues	69,691	4,080	-	14,945	9,595	98,311
Total revenues	13,936,365	587,920	2,403,754	2,417,849	789,233	20,135,121
<b>EXPENDITURES</b>						
Current:						
General government	4,467,713	-	-	71,327	-	4,539,040
Public safety	7,334,893	-	2,291,771	-	20,569	9,647,233
Transportation	-	-	-	470,881	819,095	1,289,976
Natural and economic environment	1,148,441	-	-	-	285,901	1,434,342
Culture and recreation	518,108	725,473	-	-	-	1,243,581
Debt service:						
Principal	-	-	-	-	545,000	545,000
Interest and other debt costs	-	-	-	7,650	364,262	371,912
Capital outlay:						
Capital outlay	-	-	-	778,040	6,307	784,347
Total expenditures	13,469,155	725,473	2,291,771	1,327,898	2,041,134	19,855,431
Excess (deficiency) of revenues over expenditures	467,210	(137,553)	111,983	1,089,951	(1,251,901)	279,690
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	136,584	137,553	-	-	1,193,796	1,467,933
Transfers out	(930,349)	-	(74,929)	(950,196)	-	(1,955,474)
Total other financing sources (uses)	(793,765)	137,553	(74,929)	(950,196)	1,193,796	(487,541)
Net change in fund balances	(326,555)	-	37,054	139,755	(58,105)	(207,851)
Fund balances - beginning	5,407,293	-	-	5,048,088	361,556	10,816,937
Fund balances - ending	\$ 5,080,738	\$ -	\$ 37,054	\$ 5,187,843	\$ 303,451	\$ 10,609,086

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





**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities**  
For the year ended December 31, 2016

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

Net changes in fund balances for governmental funds	\$ (207,851)
---	--------------

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.

	(539,754)
--	-----------

Capital outlays	784,347
Other capital asset activity	792,183
Depreciation	(2,115,434)
Gain (Loss) on disposal of assets	(850)

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.

	562,408
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Bonds payable	545,000
Unamortized bond premium	17,408

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

	(219,621)
--	-----------

Investment in joint ventures	(127,582)
Deferred inflows	(92,039)

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.

	147,428
--	---------

Compensated absences	27,527
Pension obligation	168,492
Post employment benefit obligation	(48,591)

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. This consists of:

	666,562
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Change in net position of governmental activities	<u><u>\$ 409,172</u></u>
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The notes to the financial statements are an integral part of this statement.



**Statement of Net Position - Proprietary Funds**  
December 31, 2016

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Management</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,202,596	\$ 1,388,572
Investments	-	978,673
Receivables (net of allowance for uncollectible)	415,519	9,617
Grants receivable	160,146	34,281
Total current assets	<u>1,778,261</u>	<u>2,411,143</u>
Noncurrent assets:		
Capital assets:		
Land	150,000	-
Art collections	-	8,799
Construction in progress	203,770	-
Buildings	-	10,094
Other Improvements	4,045,668	347,731
Machinery and equipment	91,954	2,702,981
Total noncurrent assets	<u>4,491,392</u>	<u>3,069,605</u>
Total assets	<u>6,269,653</u>	<u>5,480,748</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Pension obligation	<u>71,699</u>	<u>12,096</u>
Total deferred outflows	<u>71,699</u>	<u>12,096</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	93,904	167,452
Accrued wages	35,145	7,015
Total current liabilities	<u>129,049</u>	<u>174,467</u>
Noncurrent liabilities		
Due within one year	3,279	1,061
Due in more than one year	295,181	57,824
Total noncurrent liabilities	<u>298,460</u>	<u>58,885</u>
Total liabilities	<u>427,509</u>	<u>233,352</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Pension obligation	<u>12,474</u>	<u>976</u>
Total deferred inflows	<u>12,474</u>	<u>976</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,491,392	3,069,605
Unrestricted	1,409,977	2,188,911
Total net position	<u>\$ 5,901,369</u>	<u>\$ 5,258,516</u>

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

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

For the year ended December 31, 2016

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Management</b>	<b>Internal Service Funds</b>
Operating revenues:		
Charges for services	\$ 2,397,269	\$ 1,115,119
Total operating revenues	<u>2,397,269</u>	<u>1,115,119</u>
Operating expenses:		
Operations and maintenance	1,799,446	644,378
Depreciation	<u>288,733</u>	<u>408,209</u>
Total operating expenses	<u>2,088,179</u>	<u>1,052,587</u>
Operating income	<u>309,090</u>	<u>62,532</u>
Non-operating revenues (expenses):		
Intergovernmental	240,843	-
Interest expense	-	(8,364)
Gain(loss) on disposal of asset	-	10,944
Other non-operating	<u>-</u>	<u>8,469</u>
Total non-operating revenue (expenses)	<u>240,843</u>	<u>11,049</u>
Income before capital contributions and transfers	549,933	73,581
Capital contributions	-	92,981
Transfers in	-	500,000
Transfers out	<u>(12,460)</u>	<u>-</u>
Change in net position	537,473	666,562
Net position - beginning	<u>5,363,896</u>	<u>4,591,954</u>
Net position - ending	<u><u>\$ 5,901,369</u></u>	<u><u>\$ 5,258,516</u></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, 2016

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Surface Water Management</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from:		
Customers	\$ 2,068,945	\$ -
Interfund services provided	-	1,115,119
Cash payments to:		
Suppliers for goods and services	(498,115)	(351,483)
Interfund services used	(321,000)	-
Employees	(930,252)	(218,756)
Net cash provided by operating activities	<u>319,578</u>	<u>544,880</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating subsidies and transfers from other funds	-	500,000
Operating subsidies and transfers to other funds	(12,460)	-
Net cash provided by (used for) noncapital financing activities	<u>(12,460)</u>	<u>500,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from:		
Interfund loans	-	270,000
Other governments	240,843	-
Capital contributions	-	92,981
Payments for:		
Capital assets	(332,546)	(994,846)
Net cash (used for) capital related financing activities	<u>(91,703)</u>	<u>(631,865)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	-	(8,364)
Net cash (used for) investing related activities	<u>-</u>	<u>(8,364)</u>
Net increase in cash and cash equivalents	215,415	404,651
Cash and cash equivalents at beginning of year	987,181	1,962,594
Cash and cash equivalents balance at end of year	<u>\$ 1,202,596</u>	<u>\$ 2,367,245</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, 2016

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Surface Water Management</u>	<u>Internal Service Funds</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 309,090	\$ 62,532
Adjustments to reconcile operating income to net cash provided (used for) by operating activities:		
Depreciation	288,733	408,209
(Increase) in accounts receivable	(328,324)	(43,530)
Increase in accounts payable	30,473	124,813
Increase (decrease) in employee benefits	19,606	(7,144)
Net cash provided by (used for) operating activities	<u>\$ 319,578</u>	<u>\$ 544,880</u>
Schedule of noncash capital, investing, and financing activities:		
Depreciation	(288,733)	(408,209)

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



**Statement of Net Position - Fiduciary Funds**  
December 31, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 49,668
Total assets	<u>49,668</u>
LIABILITIES	
Liabilities payable from restricted assets	<u>49,668</u>
Total liabilities	<u>\$ 49,668</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 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 Management Services Director, with confirmation by the Council. The Management Services Director 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.

### B. 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 nonexchange 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.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund payable and receivable. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

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.

The **fund financial statements** present major individual governmental funds and major individual enterprise funds as separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The fiduciary fund financial statements have no measurement focus since they primarily represent assets held by the City in a custodial capacity. 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.

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 City considers revenues to be available if they are earned by December 31 (all eligibility requirements have been met) and the revenue is expected to be collected within 60 days after year-end. Expenditures are recorded when the related debt is incurred, except for unmatured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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.

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 City uses an agency fund to account for assets held for the benefit of others. Agency funds have no measurement focus.

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 administration, finance, police, fire, planning and community development, parks maintenance, and public works and engineering management.

Financial statements for the General Fund include the City Reserve Fund, Paine Field Emergency Reserve Fund, LEOFF Reserve Fund, and the Technology Replacement Fund.



The **Recreation and Cultural Services Fund** receives a transfer from the General Fund as well as community center activity fees and rental revenues, and finances for the operations and maintenance of the Rosehill Community Center's building and programs.

The **Emergency Medical Services Fund** receives tax revenues from a voter-approved tax levy to finance advanced life support (ALS) and ambulance response services.

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. Financial statements for the Capital Projects Fund include Park Acquisition and Development Fund, Transportation Impact Fee Fund, Real Estate Excise Tax I and II Funds, and the Municipal Facilities Fund.

The City reports the following enterprise fund:

The **Surface Water Management 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.

Financial statements for the Surface Water Management Fund include the Surface Water Reserve Fund.

Additionally, the City reports the following non-major funds:

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes:

The **Drug Enforcement Fund** was created in 2011 and is regulated by the Revised Code of Washington Chapter 69.50 which prescribes procedures relating to the seizure and forfeiture of proceeds from the sale of illegal drugs. This fund may be used for drug enforcement equipment, investigations, education, or similar purposes as defined by state law. A portion of monies forfeited must be remitted to the state or federal government as applicable.

The **Hotel/Motel Lodging Tax Fund** receives the 2% hotel/motel tax assessed on hotels and motels within the City. These funds are mandated to be used only for tourism promotion and operations and maintenance of tourism facilities in the City.

The **Street Fund** receives a transfer from the General Fund, in addition to the Motor Vehicle Fuel Excise Tax (gas tax) received. These revenues are used for street maintenance.

**Debt Service Funds** are used to account for the accumulation of funds for the payment of principal and interest on long-term obligations of governmental funds:

The **Limited Tax General Obligation Bond Fund** receives transfers from the Real Estate Excise Tax I and II Funds, and is used to pay principal and interest on bonds issued in 2009.

**Internal Service Funds** are used to provide goods and services to other departments and funds on a cost reimbursement basis:

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

The **Facilities Maintenance Fund** charges the General Fund 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 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.

#### **D. Budgetary Information**

1. Scope of Budget

Annual appropriated budgets are adopted at the fund level for general, special revenue, and debt service funds, on the modified accrual basis of accounting. Budgets for capital project funds are adopted at the level of the individual project and are shown in the financial statements on an annual basis. The required supplementary information contains original and final budget information. 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 Management Services Director 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.

3. Excess of Expenditures over Appropriations

There are no material violations of finance related legal or contractual provisions in any major or non-major City fund.

#### **E. Assets, Liabilities, Deferred Outflows/Inflows, Fund Balance, Net Position or Equities**

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. Amounts Due To and From Other Funds and Governments and Interfund Loans (Note 13)

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as interfund loans receivable and payable. Activities between funds that are for obligations of less than one year are receivables and payables, this covers cash shortfalls in funds primarily supported by another fund.

5. 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.

6. 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

7. 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.

8. 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.

9. Pensions (Note 6)

For purposes of measuring the net pension asset or 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.

10. Long-Term Debt (Note 9)

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 9 above, as well as Note 6 for deferred inflows and outflows of resources related to pension 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, 2016:

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Capital Project Fund	Total Non- Major Funds	Total Governmental Funds
<b>FUND BALANCES</b>						
Nonspendable						
Prepaid items	\$ 1,708	\$ -	\$ -	\$ -	\$ -	\$ 1,708
Restricted						
Capital	-	-	-	4,967,833	-	4,967,833
Culture and recreation	2,400	-	-	-	-	2,400
Debt service	-	-	-	-	996	996
Natural environment	73,000	-	-	-	-	73,000
Public safety	-	-	37,054	-	20,502	57,556
Self insurance	43,342	-	-	-	-	43,342
Tourism	-	-	-	-	281,953	281,953
Committed						
Culture and recreation	2,976	-	-	-	-	2,976
Contingency reserve	1,000,000	-	-	-	-	1,000,000
Employee benefits	7,138	-	-	-	-	7,138
Technology reserve	50,618	-	-	-	-	50,618
Assigned						
Operating reserve	2,421,804	-	-	220,010	-	2,641,814
Unassigned	1,477,752	-	-	-	-	1,477,752
<b>Total fund balance</b>	<b>\$ 5,080,738</b>	<b>\$ -</b>	<b>\$ 37,054</b>	<b>\$ 5,187,843</b>	<b>\$ 303,451</b>	<b>\$ 10,609,086</b>

## Note 2: Stewardship, Compliance and Accountability

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

### General Fund:

- **Contingency Fund Reserve:** \$1,000,000 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.
- **Health Self-Insured Administration Reserves:** To provide Washington State mandated reserves for the City's self-insured dental and vision benefits for City employees; equivalent to 16 weeks of budgeted expenditures.

**Hotel/Motel Lodging Tax Reserves:** The City maintains a Hotel/Motel Lodging Tax reserve fund in an amount equal to one prior complete year's revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax fund 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 Management Fund Reserves:** The City maintains an operating reserve within the Surface Water Management fund, an enterprise fund, in an amount equal to no less than 20% of budgeted operating revenues.

### **Note 3: Deposits and Investments**

#### **Deposits**

##### 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 position 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, 2016, all of the City's deposits with financial institutions were insured or collateralized. The City's \$3,554,417 of 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**

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.



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, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The average weighted maturity of the LGIP will not exceed 90 days. 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 Snohomish County Investment Pool (SCIP) is not registered with the SEC. Pool oversight comes from the Snohomish County Finance Committee that consists of the County Treasurer, County Executive and Chairperson of the County Council. This committee approves investment policies for SCIP.

#### Valuation of Investments

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

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

As of December 31, 2016 the City had the following investments measured at fair value:

<u>Investments by fair value level</u>	Fair Value Measurement Using			
	Totals as of 12/31/2016	Level 1	Level 2	Level 3
U.S Government Agency Securities	\$ 5,392,023	\$ -	\$ 5,392,023	\$ -
Snohomish County Investment Pool	5,656,453	-	5,656,453	\$ -
Total investments	<u>\$ 11,048,476</u>	<u>\$ -</u>	<u>\$ 11,048,476</u>	<u>\$ -</u>

#### Interest Rate Risk

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, 2016 the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	Investment Maturities	
		Less than 1 year	1-5 years
U.S Government Agency Securities	\$ 5,392,023	\$ -	\$ 5,392,023
Snohomish County Local Investment Pool	5,656,453	5,656,453	-
State of Washington Local Government Investment Pool	945,240	945,240	-
	<u>\$ 11,993,716</u>	<u>\$ 6,601,693</u>	<u>\$ 5,392,023</u>



### 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 attributed to the magnitude of a government's 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.

## **Note 4: Property Taxes**

Property taxes are recognized as revenue in the government-wide financial statements when an enforceable legal claim has arisen; the City recognizes revenue and a receivable for the entire tax levy in the year it was levied. No allowance for uncollectible accounts is established because delinquent taxes are considered fully collectible.

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.

The City may levy up to \$3.375 per \$1,000 of assessed valuation for general governmental services, subject to two limitations:

Washington State law (RCW 84.55.010) limits the growth of regular property taxes to 6 percent (6%) per year, after adjustments for new construction. If the assessed valuation increases by more than 6 percent (6%) due to revaluation, the levy rate will be decreased.

The Washington State Constitution limits the total regular property taxes to 1 percent (1%) of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed that amount, each is proportionally reduced until the total is at or below the 1 percent (1%) limit.

Special levies approved by the voters are not subject to the limitations listed above.



## 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 or expenditures.

During 2016, the City identified items to be reclassified within capital asset types. The result of these reclassifications and adjustments is included in current year activity because it is immaterial to the government wide financial statements. During 2016 the city identified \$792,182 of capital items which had not been capitalized in the years the assets were placed in service. These capital items are included in the current year as they are immaterial to the government wide financial statements.

Capital asset activity in the primary government for the year ended December 31, 2016 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Reclassifications</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 31,628,524	\$ 779,281		\$ (21,960)	\$ 32,385,845
Right of way	10,580,181	12,900	-	21,960	10,615,041
Art	288,474	-	(850)		287,624
Construction in progress	653,720	778,041	-		1,431,761
Total capital assets, not being depreciated	<u>43,150,899</u>	<u>1,570,222</u>	<u>(850)</u>	<u>-</u>	<u>44,720,271</u>
Capital assets, being depreciated:					
Buildings	27,952,020	-	-	(9,197)	27,942,823
Other improvements	10,615,428	313,693	-	(934,627)	9,994,494
Machinery & equipment	9,152,892	714,896	(193,469)	143,932	9,818,251
Infrastructure	264,245,595	-	-	794,941	265,040,536
Total capital assets, being depreciated	<u>311,965,935</u>	<u>1,028,589</u>	<u>(193,469)</u>	<u>(4,951)</u>	<u>312,796,104</u>
Less accumulated depreciation for:					
Buildings	(6,008,185)	(699,953)		3,194	(6,704,944)
Other improvements	(3,982,088)	(726,467)		388,040	(4,320,515)
Machinery & equipment	(5,327,700)	(895,895)	185,446	(81,148)	(6,119,297)
Infrastructure	(158,892,909)	(201,326)		(305,135)	(159,399,370)
Total accumulated depreciation	<u>(174,210,882)</u>	<u>(2,523,641)</u>	<u>185,446</u>	<u>4,951</u>	<u>(176,544,126)</u>
Total capital assets, being depreciated, net	<u>137,755,053</u>	<u>(1,495,052)</u>	<u>(8,023)</u>	<u>-</u>	<u>136,251,978</u>
Governmental activities capital assets, net	<u>\$ 180,905,952</u>	<u>\$ 75,170</u>	<u>\$ (8,873)</u>	<u>\$ -</u>	<u>\$ 180,972,249</u>

Depreciation expense was charged to functions of the primary government as follows for the year ended December 31, 2016:

<b>Governmental activities:</b>	
General government	\$ 475,050
Public safety	515,440
Utilities	-
Transportation	321,366
Natural and economic environment	24,096
Culture and recreation	1,187,689
Total depreciation expense - governmental activities	<u>\$ 2,523,641</u>



Capital asset activity in the primary government for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 150,000	\$ -	\$ -	\$ -	\$ 150,000
Right of way	-	-	-	-	-
Art	-	-	-	-	-
Construction in progress	181,800	21,970	-	-	203,770
Total capital assets, not being depreciated	<u>331,800</u>	<u>21,970</u>	<u>-</u>	<u>-</u>	<u>353,770</u>
Capital assets, being depreciated:					
Buildings	-	-	-	-	-
Other improvements	7,501,154	310,578	-	4,945	7,816,677
Machinery & equipment	258,970	-	-	5	258,975
Infrastructure	-	-	-	-	-
Total capital assets, being depreciated	<u>7,760,124</u>	<u>310,578</u>	<u>-</u>	<u>4,950</u>	<u>8,075,652</u>
Less accumulated depreciation for:					
Buildings	-	-	-	-	-
Other improvements	(3,511,064)	(255,000)	-	(4,945)	(3,771,009)
Machinery & equipment	(133,283)	(33,733)	-	(5)	(167,021)
Infrastructure	-	-	-	-	-
Total accumulated depreciation	<u>(3,644,347)</u>	<u>(288,733)</u>	<u>-</u>	<u>(4,950)</u>	<u>(3,938,030)</u>
Total capital assets, being depreciated, net	<u>4,115,777</u>	<u>21,845</u>	<u>-</u>	<u>-</u>	<u>4,137,622</u>
Business-type activities capital assets, net	<u>\$ 4,447,577</u>	<u>\$ 43,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,491,392</u>

Depreciation expense was charged to Business-type functions based on their usage of assets as follows for the year ended December 31, 2016:

<b>Business-type activities:</b>	
Surface Water	<u>\$ 288,733</u>
Total depreciation expense - business type activities	<u>\$ 288,733</u>

## Note 6: Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2016:

<u>Aggregate Pension Amounts - All Plans</u>	
Pension liabilities	\$ 3,807,116
Pension assets	1,066,758
Deferred outflows of resources	1,444,903
Deferred inflows of resources	67,548
Pension expense/expenditures	726,793

## State Sponsored Pension Plans

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



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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### **Public Employees' Retirement system (PERS)**

PERS members include elected officials; state employees; employees of the Supreme Court, Court of 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 composed of and reported as three separate pension plans for accounting purposes. Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 member. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

**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 2016 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%

The City's actual contributions to the plan were \$186,363 for the year ended December 31, 2016.

**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 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	11.18%	6.12%

The City's actual contributions to the plan were \$253,934 for the year ended December 31, 2016.

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

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

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

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

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

### Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2015. 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. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
Total	5.23%	8.41%
Ports and Universities	8.41%	8.41%
Administrative Fee	0.18%	
Total	8.59%	8.41%

The City's actual contributions to the plan were \$271,073 for the year ended December 31, 2016.

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, 2016, the state contributed \$60,375,158 to LEOFF Plan 2.

## **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation with a date of June 30, 2016. 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.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

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 minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

## **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 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, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 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 7.5 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 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

### 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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

### Sensitivity of NPL

The table below presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease <b>-6.50%</b>	Current Discount Rate <b>-7.50%</b>	1% Increase <b>-8.50%</b>
PERS 1	\$ 2,123,497	\$ 1,760,924	\$ 1,448,907
PERS 2/3	3,767,407	2,046,192	(1,065,161)
LEOFF 1	(28,741)	(48,382)	(65,171)
LEOFF 2	2,855,807	(1,018,376)	(3,938,385)

### 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, 2016, the City's proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 1,760,924
PERS 2/3	2,046,192
LEOFF 1	(48,382)
LEOFF 2	(1,018,376)

The amount of the liability/(asset) reported above for LEOFF Plan 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 liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City were as follows:

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
City's proportionate share of the net pension liability/(asset)	\$ 1,760,924	2,046,192	(48,382)	(1,018,376)
State's proportionate share of the net pension liability/(asset) associated with the City	-	-	-	(663,907)
<b>Total</b>	<b>\$ 1,760,924</b>	<b>\$ 2,046,192</b>	<b>\$ (48,382)</b>	<b>\$ (1,682,283)</b>

At June 30, 2016 the City's proportionate share of the collective net pension liabilities was as:

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2015	0.033352%	0.039290%	0.004645%	0.176909%
2016	0.032789%	0.040640%	0.004696%	0.175090%
Change in proportion	-0.000563%	0.001350%	0.000051%	-0.001819%

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 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, 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 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.





## Pension Expense

For the year ended December 31, 2016, the City recognized pension expense as follows:

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Pension Expense	\$ 64,502	\$ 327,083	\$ (6,769)	\$ 341,977

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflow of resources</b>			
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Differences between expected and actual experience	\$ -	\$ 108,958	\$ -	\$ 139,545
Net difference between projected and actual investment earnings on pension plan investments	44,337	250,395	4,918	365,943
Changes of assumptions	-	21,149	-	3,840
Changes in proportion and differences between contributions and proportionate share of contributions	-	105,079	-	46,627
Contributions subsequent to the measurement date	88,248	129,781	-	136,083
Total	<u>\$ 132,585</u>	<u>\$ 615,362</u>	<u>\$ 4,918</u>	<u>\$ 692,038</u>

  

	<b>Deferred inflow of resources</b>			
	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
Differences between expected and actual experience	\$ -	\$ 67,548	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	-	-	-
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 67,548</u>	<u>\$ -</u>	<u>\$ -</u>

Except for the City contributions made subsequent to the measurement date recorded as deferred outflows of resources which will be recognized as a reduction of the net pension liability or an increase of the net pension asset in the year ended December 31, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows;

	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2017	\$ (10,917)	\$ 40,760	\$ (1,016)	\$ 5,667
2018	(10,917)	40,760	(1,016)	5,667
2019	40,719	215,179	4,259	313,013
2020	25,452	121,334	2,691	218,819
2021	-	-	-	12,789
Thereafter	-	-	-	-
Total	<u>\$ 44,337</u>	<u>\$ 418,033</u>	<u>\$ 4,918</u>	<u>\$ 555,955</u>

## Note 7: Other Personnel Benefits

### 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. 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.

### Post-Employment Benefits

In accordance with the Revised Code of Washington (RCW) 41.26, the City provides lifetime medical care for law enforcement officers employed prior to October 1, 1977. Under this requirement, most coverage for eligible retirees is provided for in the City's employee medical insurance programs. However, under authorization of the Disability Board, direct payment is also made for some retiree medical expenses not covered by standard benefit plan provisions. When members turn 65, they go to Medicare for first provider and the City reimburses the cost of Medicare. The retiree does not contribute towards the cost of his/her medical care.

The City provides costs on a pay-as-you-go basis and used the alternative measurement method permitted under GASB Statement No. 45 for the purpose of determining the actuarial accrued liability. The City has no active members and two inactive members who have left service. At the end of 2016 ages were as follows: one member at the age of 64 and one member at the age of 77. Mortality rates were assumed to follow the LEOFF 1 mortality rates used in the June 2011, actuarial valuation reported issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the statewide LEOFF 1 medical study performed in 2013. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial cost method used to determine the actuarial accrued liability was Projected Unit Credit. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Information based on estimates from the OSA assuming Medical Inflation of +or- 5% and Amortization Period of 10 years. The following table shows the components of the City's annual other post-employment benefits (OPEB) costs and Net OPEB obligation:

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Determination of Annual Required Contribution			
Normal Cost	\$ -	\$ -	\$ -
Amortization of Unfunded Actuarial Accrued Liability	<u>77,415</u>	<u>91,930</u>	<u>94,426</u>
Annual Required Contribution	<u>77,415</u>	<u>91,930</u>	<u>94,426</u>
Determination of Net OPEB Obligation			
Annual Required Contribution	77,415	91,930	94,426
Adjustment to Annual Required Contribution	<u>(6,977)</u>	<u>(8,793)</u>	<u>(11,128)</u>
Annual OPEB Cost	70,438	83,137	83,298
Contributions Made	<u>34,084</u>	<u>36,311</u>	<u>34,707</u>
Increase in Net OPEB Obligation	<u>36,354</u>	<u>46,826</u>	<u>48,591</u>
Net OPEB Obligation - beginning	<u>139,710</u>	<u>176,064</u>	<u>222,890</u>
Net OPEB Obligation - ending	<u>\$ 176,064</u>	<u>\$ 222,890</u>	<u>\$ 271,481</u>



The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Valuation Date</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2016	\$ 83,298	\$ 34,707	41.67%	\$ 271,481
December 31, 2015	83,137	36,311	43.68%	222,890
December 31, 2014	70,438	34,084	48.39%	176,064

The required Schedule of Funding Progress, immediately following the Notes is provided to present multi-year trend information regarding the change in plan assets relative to the actuarial accrued liability for benefits.

## **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 168 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.

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

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, and 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**

Workers' compensation, RCW Title 51, requires the City to ensure payment of benefits to employees for job-related injuries and diseases. 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, 2016:

	<u>2015</u>	<u>2016</u>
Liability - beginning	\$ 7,488	\$ 8,571
Claims incurred	28,488	53,406
Claim payments	(27,405)	(61,977)
Liability - ending	<u>\$ 8,571</u>	<u>\$ -</u>

### **Dental and Vision**

The City is self-insured for dental and vision benefits. The program is 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 is required to maintain a reserve balance in an amount not less than eight weeks of program expenses. An additional contingency reserve established by the City Council is recommended but not required. Below is an analysis of claims activity for the two years ended December 31, 2016:

	<u>2015</u>	<u>2016</u>
Liability - beginning	\$ (2,885)	\$ 14,507
Claims incurred	184,489	141,908
Claim payments	(167,097)	(143,939)
Liability - ending	<u>\$ 14,507</u>	<u>\$ 12,476</u>

## **Note 9: Long-term Debt**

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

During 2009 the City authorized the issuance of a LTGO bond in the amount of \$12,585,000 for construction of the Rosehill Community Center. This debt has been issued for the general government and will be repaid with real estate excise taxes.



At December 31, 2016, the City had the following general obligation bonds outstanding:

Purpose	Issue Date	Maturity Date	Average Coupon Interest Rate %	Issuance Amount	Beginning Balance	Additions	Deletions	Ending Balance
2009 LTGO Bonds - Community Center	09/10/2009	12/01/2029	3.54%	\$12,585,000	\$ 9,650,000	\$ -	\$ (545,000)	\$ 9,105,000
Total General Obligation Bonds				<u>\$12,585,000</u>	<u>\$ 9,650,000</u>	<u>\$ -</u>	<u>\$ (545,000)</u>	<u>\$ 9,105,000</u>

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2017	\$ 560,000	\$ 347,613
2018	580,000	328,962
2019	600,000	307,300
2020	620,000	287,800
2021	640,000	266,100
2022-2026	3,590,000	943,800
2027-2029	2,515,000	203,800
Total	<u>\$ 9,105,000</u>	<u>\$ 2,685,375</u>

On February 9, 2017, the City refunded \$7,980,000 of its 2009 Limited Tax General Obligation bonds (see Note 16). The interest rate on the bonds is 2.4%, and the maturity date is December 1, 2029. Refunding these bonds results in City savings of \$316,942 over the life of the bond.

## Note 10: Other Contractual Commitments

The City had the following significant contractual obligations on construction projects at December 31, 2016:

Contracting Entity	Project Name	Balance
Perteet, Inc.	SR 526 Bicycle - Pedestrian Pathway	\$ 93,164
Cascade Design Collaborative	Active Transportation Plan	20,703
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	523,044
Tuttle Engineering and Management, LLC	61st Place West Retaining Wall Repair	122,836
Tuttle Engineering and Management, LLC	Harbour Pointe Blvd SW Widening	219,401
		<u>\$ 979,148</u>

## Note 11: Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 9,650,000	\$ -	\$ (545,000)	\$ 9,105,000	\$ 560,000
Bond premium	237,909	-	(17,408)	220,501	17,408
Capital lease	-	-	-	-	-
Compensated absences	982,002	750,656	(779,683)	952,975	52,197
Pension obligation	2,978,607	3,588,173	(2,998,261)	3,568,519	-
Other postemployment benefits	222,890	48,591	-	271,481	-
Governmental activity - long-term liabilities	<u>14,071,408</u>	<u>4,387,420</u>	<u>(4,340,352)</u>	<u>14,118,476</u>	<u>629,605</u>
Business-type activities:					
Pension obligation	169,866	218,943	(150,212)	238,597	-
Compensated absences	52,679	42,729	(35,545)	59,863	3,279
Business-type activity - long-term liabilities	<u>222,545</u>	<u>261,672</u>	<u>(185,757)</u>	<u>298,460</u>	<u>3,279</u>
Total long-term liabilities	<u>\$ 14,293,953</u>	<u>\$ 4,648,892</u>	<u>\$ (4,526,109)</u>	<u>\$ 14,416,936</u>	<u>\$ 632,884</u>

## Note 12: Contingencies and Litigation

As of December 31, 2016, there was one lawsuit pending against the City. It is the opinion of management and the City Attorney that the disposition of this claim is not presently expected to have a material adverse effect on the City's financial statements.

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

## Note 13: Interfund Activity

### 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.

Transfers between funds as of December 31, 2016 are as follows:

<u>Fund</u>	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 136,584	\$ 930,349
Street	292,797	-
Recreation & Cultural Services	137,553	-
Emergency Medical Services	-	74,929
Government Obligation Bond	901,000	-
Capital Projects	-	950,196
Surface Water Management	-	12,460
Facility Renewal	500,000	-
Total	<u>\$ 1,967,934</u>	<u>\$ 1,967,934</u>

In 2016, the Capital Project funds resources were transferred to the Debt Service fund to pay debt service principal and interest. General fund resources were transferred to the Recreation & Cultural Services fund and Street fund to support operations. Additionally, General fund resources of \$500,000 were transferred to create a Facility Renewal fund that will be used for maintenance of the City's buildings. Transfers from the Surface Water Management fund and Capital Project funds to the General fund were made to reimburse the salary and benefits of the capital projects engineer for work on capital projects in those funds.

#### Interfund receivable and payables

The outstanding balances between funds are the result of loans between the general fund and other major and non-major governmental funds for which the general fund expects to collect in the subsequent year.

Interfund receivable and payable activity between funds as of December 31, 2016 is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 6,601	\$ -
Street	-	(6,601)
Total	<u>\$ 6,601</u>	<u>\$ (6,601)</u>

#### Interfund loans

Interfund loan activity between funds as of December 31, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Receivable:					
Equipment Replacement Fund	\$ 270,000	\$ -	\$ 270,000	\$ -	\$ -
Total receivable	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ -</u>
Payable:					
Capital Project Fund	\$ 270,000	\$ -	\$ 270,000	\$ -	\$ -
Total payable	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ -</u>

The interfund loan related to the Japanese Gulch Master Plan between the Parks Acquisition & Development Fund and the Equipment Repair and Replacement fund was paid in full in 2016.

## **Note 14: 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, 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.

SERS is reported as a governmental joint venture. The City of Mukilteo's share of the assets and equity as of December 31, 2016 is \$175,241. This value has been recorded in the government-wide statements as an investment in joint venture.

### Southwest Snohomish County Public Safety Communications Agency

The City of Mukilteo participates in a single joint venture with other local governments in the "*Southwest Snohomish County Public Safety Communications Agency*," (SNOCOM) a public non-profit corporation formed in 1971 and incorporated in 2014. The purpose of SNOCOM is to provide public safety communications, records retention and usage and other board approved functions.

SNOCOM was established via an interlocal agreement between the City of Mukilteo, six other cities and Snohomish County Fire District 1 all located within the county. Each member city and the Fire District provide voting members to the SNOCOM board of directors. The purpose of SNOCOM is to provide communications and dispatching for public health and safety services in Southwest Snohomish County.

The Cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo, Woodway, and Fire District 1 are jointly responsible for the financing of SNOCOM. The interlocal agreement details clearly an allocation formula that determines each member's share in the joint venture and its reported equity interest in their respective financial statements. It incorporates each agency's population, assessed value and usage of 911 calls for service. Each member provides a voting representative to SNOCOM governing board of directors. The SNOCOM board has the authority to approve project expenditures and adopt SNOCOM budget.

At December 31, 2016, the City of Mukilteo owned an equity interest in the SNOCOM joint venture of \$376,392. This value has been recorded in the government wide statements as an asset for the year ended December 31, 2016. The equity interest is adjusted to the extent of revenues and expenditure transactions occurring between the City of Mountlake Terrace and SNOCOM as recorded in the City of Mountlake Terrace's financial system. The City of Mountlake Terrace, who provides general financial services as outlined in the Interlocal Agreement for Financial Services signed on November 25, 2009, prepares the unaudited financial information. Separate financial statements for the Snohomish County Public Safety Communication Agency can be obtained from the City of Mountlake Terrace, Finance Department, 6100 219<sup>th</sup> St SW, Suite 200, Mountlake Terrace, WA 98043.

### 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, Snohomish, and 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. Fiscal agent duties are performed by the City of Mountlake Terrace.

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 of Mukilteo's equity share as of December 31, 2016 is \$1,809, 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 Crystil Wooldridge, Finance Director, City of Mountlake Terrace, 6100 219<sup>th</sup> Street SW, Mountlake Terrace WA 98043 (or email: [cwooldridge@ci.mlt.wa.us](mailto:cwooldridge@ci.mlt.wa.us)) or from Kristina Gallant, Housing Analyst, Alliance for Housing Affordability, 12625 4<sup>th</sup> Ave W, Suite 200, Everett, WA 98204.

## **Note 15: Other disclosures**

### Accounting and reporting changes

The Governmental Accounting Standards Board has issued several statements that take affect for 2016 reporting. The City adopted the following new standard issued by the Governmental Accounting Standards Board (GASB).

Statement No. 72, Fair Value Measurement and Application, became effective for financial statements for fiscal years beginning after June 15, 2015. The statement addresses accounting and reporting issues related to fair value measurements and requires disclosures be made about fair value measurements, the level of fair value hierarchy and valuation techniques. This report has been prepared to conform to this newly adopted GASB statement.

## **Note 16: Subsequent Events**

On February 9, 2017, the City refunded \$7,980,000 of its 2009 Limited Tax General Obligation bonds. The interest rates on the new bonds are 2.4%, and the maturity date is December 1, 2029. Refunding these bonds resulted in City savings of \$316,942 over the life of the bond. The debt disclosure in the Note 9 presents the bonds as they were at December 31, 2016 and does not reflect the refunding.

On April 3, 2017, after conducting a public hearing, the Mukilteo City Council approved Ordinance 1399 that formed the Mukilteo Transportation Benefit District. A Transportation Benefit District (TBD) is a Quasi-municipal corporation and independent taxing district created for the sole purpose of funding transportation improvements within the district. The ordinance specifies that the boundaries of the TBD include the entire City of Mukilteo as the boundaries currently exist or as they may exist following future annexations.

## Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

### Streets:

The City of Mukilteo has taken a pragmatic approach with pavement management practices associated with public streets. The City performed a city wide pavement condition assessment in 2007, 2014 and 2016 and updated the Pavement Management Program (PMP). The Pavement Management Program 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. Street 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 2007, 2014 & 2016**

Condition Rating	2007		2014		2016	
	Miles	Percentage	Miles	Percentage	Miles	Percentage
Excellent	22.6	37.1%	7.0	11.5%	-	0.0%
Very Good	20.4	33.5%	43.8	71.9%	51.8	85.1%
Good	13.1	21.5%	7.1	11.7%	5.2	8.5%
Poor	4.8	7.9%	2.3	3.8%	2.4	3.9%
Very Poor	-	0.0%	0.7	1.1%	0.3	0.5%
<b>Total</b>	<b>60.9</b>		<b>60.9</b>		<b>59.7</b>	

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 59.7 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 (Arterial, Urban Minor Arterial, Collector, and Residential). The table below shows the City's pavement mileage by functional classification:

**Table 2  
Pavement Mileage by Functional Class**

<b>Functional Classification</b>	<b>Centerline Miles</b>
Arterial	1.0
Urban Minor Arterial	0.8
Collector	11.3
Residential/Local	46.6
<b>Grand Total</b>	<b>59.7</b>

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

The City's Pavement Management Program is designed with focusing on a cost-effective, "Best-first" approach. The reasoning behind this philosophy is that it is better to treat streets with lower-cost, preventative maintenance treatments, such as slurry seals, chip seals, and crack seals, and extend their life cycle, before the street condition deteriorates to a state where it requires more costly rehabilitation and reconstruction treatments. Generally, paved streets spend about three-quarters of their lifecycle in 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 2011 to 2016.

<b>Year</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Planned	\$ 882,000	\$ 350,000	\$ 317,000	\$ 510,420	\$ 200,000
Actual	350,022	412,831	16,200	495,130	333,419
Variance	\$ 531,978	\$ (62,831)	\$ 300,800	\$ 15,290	\$ (133,419)
	60.31%	-17.95%	94.89%	3.00%	-66.71%

**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual  
General Fund  
For the Year Ended December 31, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Property taxes	\$ 4,940,000	\$ 4,940,000	\$ 4,928,340	\$ (11,660)
Sales taxes	2,794,118	2,794,118	2,777,781	(16,337)
Other taxes and assessments	2,941,757	2,941,757	2,848,846	(92,911)
Licenses and permits	1,327,496	1,327,496	1,450,227	122,731
Intergovernmental	493,886	493,886	610,441	116,555
Charges for services	404,920	404,920	353,332	(51,588)
Fines and forfeitures	204,220	204,220	160,724	(43,496)
Rents and leases	681,975	681,975	656,169	(25,806)
Interest earnings	20,500	20,500	67,585	47,085
Contributions and donations	6,000	12,000	13,229	1,229
Miscellaneous revenues	8,300	8,300	69,691	61,391
Total revenues	<u>13,823,172</u>	<u>13,829,172</u>	<u>13,936,365</u>	<u>107,193</u>
<b>EXPENDITURES</b>				
General government	4,077,356	4,077,356	4,467,713	390,357
Public safety	7,649,737	7,674,737	7,334,893	(339,844)
Transportation	-	-	-	-
Natural and economic environment	1,321,728	1,321,728	1,148,441	(173,287)
Culture and recreation	632,415	643,665	518,108	(125,557)
Total expenditures	<u>13,681,236</u>	<u>13,717,486</u>	<u>13,469,155</u>	<u>(248,331)</u>
Excess of revenues over expenditures	<u>141,936</u>	<u>111,686</u>	<u>467,210</u>	<u>355,524</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	229,967	229,967	136,584	(93,383)
Transfers out	(944,085)	(944,085)	(930,349)	13,736
Total other financing sources (uses)	<u>(714,118)</u>	<u>(714,118)</u>	<u>(793,765)</u>	<u>(79,647)</u>
Net change in fund balance	(572,182)	(602,432)	(326,555)	275,877
Fund balance - beginning	<u>5,407,293</u>	<u>5,407,293</u>	<u>5,407,293</u>	<u>-</u>
Fund balance - ending	<u>\$ 4,835,111</u>	<u>\$ 4,804,861</u>	<u>\$ 5,080,738</u>	<u>\$ 275,877</u>

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Recreation & Cultural Services Fund**  
For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Licenses and permits	\$ -	\$ -	\$ 1,250	\$ 1,250
Intergovernmental	39,300	39,300	51,101	11,801
Charges for services	163,550	163,550	88,949	(74,601)
Rents and leases	473,280	473,280	436,790	(36,490)
Interest earnings	800	800	-	(800)
Contributions and donations	5,500	5,500	5,750	250
Miscellaneous revenues	50	50	4,080	4,030
Total revenues	<u>682,480</u>	<u>682,480</u>	<u>587,920</u>	<u>(94,560)</u>
<b>EXPENDITURES</b>				
Culture and recreation	<u>790,525</u>	<u>790,525</u>	<u>725,473</u>	<u>(65,052)</u>
Total expenditures	<u>790,525</u>	<u>790,525</u>	<u>725,473</u>	<u>(65,052)</u>
Deficiency of revenues over expenditures	<u>(108,045)</u>	<u>(108,045)</u>	<u>(137,553)</u>	<u>(29,508)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	108,045	108,045	137,553	29,508
Transfers out	-	-	-	-
Total other financing sources	<u>108,045</u>	<u>108,045</u>	<u>137,553</u>	<u>29,508</u>
Net change in fund balance	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).



**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Emergency Medical Services Fund**  
For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Property taxes	\$ 1,834,000	\$ 1,834,000	\$ 1,830,003	\$ (3,997)
Intergovernmental	-	-	-	-
Charges for services	532,500	532,500	573,552	41,052
Interest earnings	200	200	199	(1)
Miscellaneous revenues	-	-	-	-
Total revenues	<u>2,366,700</u>	<u>2,366,700</u>	<u>2,403,754</u>	<u>37,054</u>
EXPENDITURES				
Public safety	<u>2,264,399</u>	<u>2,264,399</u>	<u>2,291,771</u>	<u>27,372</u>
Total expenditures	<u>2,264,399</u>	<u>2,264,399</u>	<u>2,291,771</u>	<u>27,372</u>
Excess of revenues over expenditures	<u>102,301</u>	<u>102,301</u>	<u>111,983</u>	<u>9,682</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	<u>(102,301)</u>	<u>(102,301)</u>	<u>(74,929)</u>	<u>27,372</u>
Total other financing uses	<u>(102,301)</u>	<u>(102,301)</u>	<u>(74,929)</u>	<u>27,372</u>
Net change in fund balance	-	-	37,054	37,054
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,054</u>	<u>\$ 37,054</u>

The Budget is prepared in accordance with Generally Accepted Accounting Principles (GAAP).

**Schedule of Funding Progress of Other Post-Employment Benefits**

Valuation Date	Actuarial value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL As a Percentage of Covered Payroll
December 31, 2016	\$ -	\$1,049,903	\$1,049,903	0.00%	\$ -	0.00%
December 31, 2015	-	1,022,113	1,022,113	0.00%	-	0.00%
December 31, 2014	-	860,730	860,730	0.00%	-	0.00%



**Schedule of Proportionate Share of the Net Pension Liability**  
As of June 30, 2016

City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2016 PERS 1			City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2016 PERS 2/3		
	2016	2015		2016	2015
Employer's proportion of the net pension liability (asset)	0.03279%	0.03335%	Employer's proportion of the net pension liability (asset)	0.04064%	0.03929%
Employer's proportionate share of the net pension liability	\$ 1,760,924	\$ 1,744,620	Employer's proportionate share of the net pension liability	\$ 2,046,192	\$ 1,403,854
Employer's covered employee payroll	\$ 3,552,024	\$ 3,505,398	Employer's covered employee payroll	\$ 3,496,261	\$ 3,369,594
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	49.58%	49.77%	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	58.53%	41.66%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%

  

City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2016 LEOFF 1			City of Mukilteo Schedule of Proportionate Share of the Net Pension Liability As of June 30, 2016 LEOFF 2		
	2016	2015		2016	2015
Employer's proportion of the net pension liability (asset)	0.00470%	0.00465%	Employer's proportion of the net pension liability (asset)	0.17509%	0.17691%
Employer's proportionate share of the net pension liability	\$ (48,382)	\$ (55,983)	Employer's proportionate share of the net pension liability	\$ (1,018,376)	\$ (1,818,271)
			State's proportionate share of the net pension liability (asset) associated with the employer	\$ 174,626	\$ (171,448)
			Total	\$ (843,750)	\$ (1,989,718)
Employer's covered employee payroll	\$ -	\$ -	Employer's covered employee payroll	\$ 5,923,245	\$ 5,248,124
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-	-	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-17.19%	-34.65%
Plan fiduciary net position as a percentage of the total pension liability	123.74%	127.36%	Plan fiduciary net position as a percentage of the total pension liability	106.04%	111.67%





**Schedule of Employer Contributions**  
As of December 31, 2016

City of Mukilteo Schedule of Employer Contributions As of December 31, 2016 PERS 1		
	2016	2015
Statutorily or contractually required contributions	\$ 186,362	\$ 158,036
Contributions in relation to the statutorily or contractually required contributions	(186,362)	(158,036)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 3,776,441	\$ 3,594,439
Contributions as a percentage of covered employee payroll	4.93%	4.40%

City of Mukilteo Schedule of Employer Contributions As of December 31, 2016 PERS 2/3		
	2016	2015
Statutorily or contractually required contributions	\$ 253,930	\$ 209,660
Contributions in relation to the statutorily or contractually required contributions	(253,930)	(209,660)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 3,720,669	\$ 3,454,025
Contributions as a percentage of covered employee payroll	6.82%	6.07%

City of Mukilteo Schedule of Employer Contributions As of December 31, 2016 LEOFF 1		
	2016	2015
Statutorily or contractually required contributions	\$ -	\$ -
Contributions in relation to the statutorily or contractually required contributions	-	-
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ -	\$ -
Contributions as a percentage of covered employee payroll	-	-

City of Mukilteo Schedule of Employer Contributions As of December 31, 2016 LEOFF 2		
	2015	2015
Statutorily or contractually required contributions	\$ 271,069	\$ 263,284
Contributions in relation to the statutorily or contractually required contributions	(271,069)	(263,284)
Contribution deficiency (excess)	\$ -	\$ -
Covered employer payroll	\$ 5,528,211	\$ 5,367,588
Contributions as a percentage of covered employee payroll	4.90%	4.91%

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>