Washington State Auditor's Office

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Financial Statements Audit Report

City of Mukilteo

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published June 23, 2016

Report No. 1016938

Washington State Auditor's Office

June 23, 2016

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,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Mukilteo
Snohomish County
January 1, 2014 through December 31, 2014

2014-001 The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.

Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In the prior two audits, we identified and communicated deficiencies in controls that adversely affected the City's ability to produce reliable financial statements. Our current audit found that internal control weaknesses continue to affect the City's ability to produce financial statements that are free from error.

In 2015, the City experienced turnover in key accounting positions including the Finance Director, Accounting Manager and Staff Accountant. The City filled these positions in 2015; however, the turnover in personnel delayed the preparation of the 2014 financial statements because employees responsible for preparing and maintaining key information were not available. In addition, the new employees had to verify the accuracy of the 2014 financial data due to a computer server failure in 2013.

Current staff is knowledgeable of accounting practices and have significantly improved the financial reporting of the City.

The City submitted the majority of its 2014 financial statements on February 12, 2016, 258 days after the deadline prescribed by state law (RCW 43.09.230).

Description of Condition

We identified the following deficiencies in internal controls over accounting and financial reporting that represent a significant deficiency:

- The City's review of the prepared financial statements was not adequate to detect and correct all errors prior to audit.
- The City has capital assets that are not properly classified in its computerized system increasing the risk of inaccurate depreciation calculations.

We further identified that internal controls over accounting and reporting of the Emergency Medical Services fund were not adequate to ensure accurate valuation of accounts receivable. This deficiency in internal controls represents a material weakness.

Cause of Condition

The City experienced turnover in key accounting personnel, in addition to the 2013 computer server crash, both of which contributed to the City's inability to prepare accurate financial statements in a timely manner and to address existing errors.

Effect of Condition

Untimely and inaccurate financial reports limit access to financial information used by City officials, the public, state and federal agencies, and other interested parties. It also hinders the audit process and increases audit costs.

We identified the following material error during our audit:

- The City did not record accounts receivable related to deferred revenues of $21,232 in the Emergency Medical Services fund, causing the balance to be understated.

The City corrected the material error listed above on the final financial statements. This error was material for the Emergency Medical Services fund, which, while not required, was presented as a major fund at the discretion of the City.

We identified additional, less significant errors in the financial statements and notes to the financial statements. Despite these internal control issues and noted errors, the City ultimately provided corrected financial statements upon which we are issuing an unmodified opinion.

Recommendation

We continue to recommend the City:

- Ensure staff have adequate time and resources to perform a detailed, technical review of the financial statements.

- Comply with state law requiring that the City file financial reports with the State Auditor's Office within 150 days after its fiscal year end.

City's Response

The City acknowledges that it did not have sufficient internal controls in place to prepare statements free of error and meet the reporting deadline prescribed by state law under RCW 43.09.230 due to changes in key accounting personnel in 2015. During 2015 the City hired a new Finance Director, Accounting Manager, and Staff Accountant with sufficient knowledge and background to prepare the financial statements in a timely manner and in accordance with standards set by Generally Accepted Accounting Principles, Governmental Accounting Standards Board, Washington State Budgeted Accounting and Reporting System Manual and applicable Washington State RCWs.

The preparation of the financial statements is a complex process that requires detailed knowledge of both professional accounting standards as well as the City's transactions. New finance staff has made strides towards cleaning up old financial system data that was the cause of findings in past audits as well as improving reporting of accrual items that were either not reported, or reported incorrectly in past annual reports.

The City will continue to train and improve internal controls surrounding financial reporting to ensure accurate and timely financial reporting.

The material misstatement in the Emergency Medical Services fund was due to an error in how the City recorded a deferred inflow for an estimated amount of revenue related to ambulance transport billings that was not expected to be received within 60-days after year end. The deferred inflow was offset by a reduction in revenue rather than an increase in accounts receivable. This error was identified by the City during the course of the audit while preparing supporting documentation for the auditors; the City made and shared this correction with the auditors the day after the initial inquiry. We believe that during the course of our review the City would have discovered this error of an estimate on our own.

We thank the Washington State Audit staff for all of their continued support of the City as we continue to improve our financial reporting processes.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues. We will follow up on its status during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
>> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>>
>> Significant deficiency. 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.

Budgeting, Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and General Procedures, Internal Control, states:

> Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

> Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

RCW 43.09.200 – Local Government Accounting – Uniform System of Accounting, states:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.
>
> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 – Local Government Accounting – Accounting Reports – Comparative Statistics, states:

> The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.
>
> Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mukilteo
Snohomish County
January 1, 2014 through December 31, 2014

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.

Audit Period: January 1, 2013 – December 31, 2013	**Report Ref. No.:** 1014844	**Finding Ref. No.:** 2013-001	
Finding Caption: The City's internal controls over accounting and financial reporting continue to be inadequate to ensure financial statements are accurate and complete.			
Background: In the fiscal year 2012 audit we identified and communicated deficiencies in controls that adversely affect the City's ability to produce reliable financial statements. The fiscal year 2013 audit found that internal control weaknesses continue to affect the City's ability to produce financial statements that are free from error. The City spent 2013 recovering from a computer server crash that affected multiple financial systems at the City. The preparation and audit of the 2012 financial statements was delayed as the City worked for months to recover its financial data. Further, as the City was starting to prepare its 2013 financial statements, the City experienced turnover in its key accounting positions. The computer server crash and subsequent turnover in personnel delayed the preparation of the 2013 financial statements. The City submitted the 2013 financial statements on November 20, 2014, 174 days after the deadline as prescribed by state law (RCW 43.09.230). These issues also caused delays in the audit process as employees responsible for preparing and maintaining key information were not available.			
Status of Corrective Action: (check one)			
☐ Fully Corrected	☒ Partially Corrected	☐ No Corrective Action Taken	☐ Finding is considered no longer valid
Corrective Action Taken: *The City of Mukilteo has gone through a number of positive changes in the Finance Department since the 2013 audit. We have hired three major positions in 2015, including a new staff accountant, accounting manager, and finance director. We are very confident and pleased that these three new hires are knowledgeable of GAAP and GASB reporting*			

requirements and will now meet the recommendations of the last audit. We have and continue to provide training for staff and have also hired an outside contractor to provide oversight to prepare accurate and complete 2014 financial statements with all required documentation and support fund balance classifications. The City has been keeping the Washington State Auditor's Office informed of the status of 2014 and have worked with them on the timing of the 2014 financial statements and audit.

We feel very confident and are excited to get back on track and move forward in the financial responsibilities for the City of Mukilteo.

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, 2014 through December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2016.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 to be significant deficiencies.

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*.

CITY'S REPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

June 14, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mukilteo
Snohomish County
January 1, 2014 through December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 17.

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, 2014, 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 on pages 18 through 27, infrastructure modified approach information on pages 63 through 64, budgetary comparison information on pages 65 through 67, and information on postemployment benefits other than pensions on page 68 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 June 14, 2016 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.

Troy X. Kelley

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

June 14, 2016

FINANCIAL SECTION

City of Mukilteo
Snohomish County
January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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, 2014. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, note disclosures, and required supplement information following this section.

Financial Highlights

- The City's assets exceeded its liabilities by $189,646,008 (net position) for the calendar year reported.

- Total net position is comprised of the following:

  (1) Net investment in capital assets, of $176,915,266 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Net position of $4,660,586 is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  (3) Unrestricted net position of $8,070,156 represents the portion available to maintain the City's continuing obligations to citizens and creditors.

- The City's governmental funds reported a total ending fund balance of $9,860,500 this year. This compares to the prior year restated ending fund balance of $11,103,347, showing a decrease of $1,242,847 or 11.19% during the current year.

- At the end of the current calendar year, unassigned fund balance for the General Fund was $ 1,574,641, or 12.61% of total General Fund expenditures.

- Overall, the City continues to maintain a strong financial position, in spite of economic conditions and the deepening fiscal crises that local government such as ours will continue to face for the foreseeable future.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The first of these government-wide statements is the Statement of Net Position. This is the government-wide statement of position presenting information that includes all of the City's assets 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, judicial, public safety, physical environment, transportation, economic environment and culture and recreation. Business-type activities include water, sewer and storm water. Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

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

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 storm water. The City's proprietary funds are classified as enterprise funds and an internal service fund. These enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The internal service fund is an equipment rental fund and facility maintenance 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 a full understanding of the government-wide and fund financial statements.

Required Supplementary Information
This section includes the budgetary schedules for the general fund, the street construction fund and the recreations program fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position
The City's net position at calendar year-end was $189,646,008. The following table provides a summary of the City's net position:

Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current assets	$ 13,512,575	$ 14,813,195	$ 1,411,410	$ 1,504,300	$ 14,923,985	$ 16,317,495
Noncurrent assets						
Other	680,104	704,389	-	-	680,104	704,389
Capital	182,980,385	180,973,357	4,109,881	4,463,489	187,090,266	185,436,846
Total assets	197,173,064	196,490,941	5,521,291	5,967,789	202,694,355	202,458,730
Liabilities:						
Current liabilities	1,144,247	1,241,361	146,042	95,791	1,290,289	1,337,152
Long-term liabilities	11,724,626	11,995,191	33,432	-	11,758,058	11,995,191
Total liabilities	12,868,873	13,236,552	179,474	95,791	13,048,347	13,332,343
Net position:						
Net investment in capital assets	172,805,385	170,288,356	4,109,881	4,463,489	176,915,266	174,751,845
Restricted	4,660,586	5,456,343	-	-	4,660,586	5,456,343
Unrestricted (deficit)	6,838,220	7,509,690	1,231,936	1,408,509	8,070,156	8,918,199
Total net position	$184,304,191	$183,254,389	$ 5,341,817	$ 5,871,998	$189,646,008	$189,126,387

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 11.81 to 1 at December 31, 2014. The current ratio for the business-type activities at December 31, 2014 is 9.66. For the City overall, the current ratio is 11.57 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased $2,795,179 before restatement for governmental activities and decreased by $294,516 for business-type activities. The City's overall financial position increased during calendar year 2014 by $2,500,663.

Note that 93.76% 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 76.94% of its net position as its capital investment. Capital assets in the business-type activities provide storm water services, and generate revenues for this fund. Overall, 93.29% 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, 2013 and 2014:

Summary of Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program:						
Charges for services	$ 3,410,519	$ 3,782,427	$ 1,305,245	$ 1,293,185	$ 4,715,764	$ 5,075,612
Operating grants and contributions	830,041	26,269	727,990	266,583	1,558,031	292,852
Capital grants	4,270,322	826,348	-	-	4,270,322	826,348
General:						
Property taxes	6,555,496	6,577,046	-	-	6,555,496	6,577,046
Sales taxes	2,977,147	2,681,225	-	-	2,977,147	2,681,225
Other taxes	3,791,199	5,116,837	-	-	3,791,199	5,116,837
Other and transfers (net)	383,346	81,485	(38,816)	1,710	344,530	83,195
Total revenues	22,218,070	19,091,637	1,994,419	1,561,478	24,212,489	20,653,115
Program Expenses:						
General government	3,764,540	3,437,323	-	-	3,764,540	3,437,323
Public safety	9,745,072	9,736,294	-	-	9,745,072	9,736,294
Transportation	1,582,178	1,546,508	-	-	1,582,178	1,546,508
Natural and economic environment	1,349,307	1,452,672	-	-	1,349,307	1,452,672
Culture and recreation	2,585,831	2,613,481	-	-	2,585,831	2,613,481
Interest on long-term debt	395,963	393,405	-	-	395,963	393,405
Surface water management	-	-	2,288,935	1,723,492	2,288,935	1,723,492
Total expenses	19,422,891	19,179,683	2,288,935	1,723,492	21,711,826	20,903,175
Revenues over (under) expenses	2,795,179	(88,046)	(294,516)	(162,014)	2,500,663	(250,060)
Beginning net position	183,254,389	183,342,435	5,871,998	6,034,012	189,126,387	189,376,447
Prior period adjustment	(1,745,377)	-	(235,665)	-	(1,981,042)	-
Ending net position	$184,304,191	$183,254,389	$ 5,341,817	$ 5,871,998	$189,646,008	$189,126,387

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 were $21,550 less than 2013 or less than 1.00% change. Sales taxes increased $295,922 over 2013 or 11.04%. 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 59.97% of the total revenues stream as compared to 75.30% in 2013.

The operating grants of $371,311 for general government included the following:

- Liquor Board Taxes from the State of Washington: $191,834
- Liquor excise tax from the State of Washington: $24,861
- PUD Priviledge Tax from Snohomish County PUD: $108,756
- Aide reimbursements from local governments: $45,860

The capital grants of $4,267,411 for general government primarily included grants from the county and the state for the Japanese Gulch land purchase, which included a grant from the Snohomish County Conservation Futures Fund.

The primary source of the operating grants of $421,294 for transportation is the City's share of the State's Motor Vehicle Fuel Tax.

The City reported investment interest of $50,301 as compared to a $22,446 in 2013. Note that program revenues cover 56.18% of governmental operating expenses. This means that the taxpayers and the City's other general governmental revenues cover the remaining 43.82% of the governmental expenses. As a result, the general economy and the success of City businesses have a major impact on the City's revenue streams.

Governmental functional expenses

Of the City's governmental activities functions, 50.17% of the total costs relates to public safety in 2014 as compared to 50.76% in 2013. Culture and recreation expenses make up 13.31% as compared to 13.63% in 2013.

This table presents the cost of each of the City's programs, including the net costs (i.e., total cost less revenues generated by the activities).

The net costs illustrate the financial burden that was placed on the City's taxpayers by each of these functions.

Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
General government	$ 3,764,540	$ 3,437,323	$ (2,561,897)	$ 1,366,969
Public safety	9,745,072	9,736,294	9,039,196	1,324,982
Transportation	1,582,178	1,546,508	1,018,810	8,448,447
Natural and economic environment	1,349,307	1,452,672	1,263,935	1,255,677
Culture and recreation	2,585,831	2,613,481	1,756,002	1,755,158
Interest on long-term debt	395,963	393,405	395,963	393,405
Total	$ 19,422,891	$ 19,179,683	$ 10,912,009	$ 14,544,638

Business-Type Activities Analysis

The City maintains a single enterprise fund, for surface water management. In this fiscal year, operating revenues were $2,033,234 and operating expenses were $2,288,935, resulting in an operating loss of $255,701.

Revenues from charges for services increased just $12,060 or 0.93% greater in 2014 over that of 2013.

Operation and maintenance costs increased $644,438 or 46.35% above the 2013 amount. This increase relates to the Smuggler's Gulch project. Depreciation expense decreased $78,996 or 23.71% in 2014 as compared to 2013. In this year, this fund transferred $50,000 of resources to other funds. At December 31, 2014, net position totals $5,341,817. Of this amount, $4,109,881 or 76.94% is restricted for capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a focus on short-term inflow and outflow of spendable resources. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of $9,860,499 as compared to the amount of $11,317,878 at December 31, 2013 before the $(214,531), prior period adjustment.

The restricted amount at December 31, 2014 was $4,359,084, relating primarily to, capital improvements, and tourism.

The committed amount of $1,301,502 is primarily for a contingency reserve or $1 million.

The General Fund reports an assigned fund balance of $2,624,273, 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 restated fund balance decreased by $43,872 or 0.80% in 2014. In calendar year 2013, the fund balance decreased $124,462 or 1.96%.

Total revenues increased $314,092 or 2.40% in 2014. Total taxes increased $50,282 or less than 1.00%.

Total licenses and permits were down $36,722 or 2.69% below the 2013 amount and intergovernmental revenue increased $33,465 or 9.21% above the 2013 revenue amount.

Total charges for services and fines and forfeitures were consistent with prior year revenue.

In 2014, total expenditures increased $402,477 or 3.33% above the 2013 amount. The general government expenditures increased $506,298 or 19.40%. The majority of this increase relates to the Japanese Gulch project.

Transportation expenditures increased by $276,834 or 356.63% because of an emergency project done using City Reserves.

In addition to the general fund, the City reported four other major funds: Recreation and Cultural Services, Emergency Medical Services, Park Acquisition & Development, and Real Estate Excise Tax I.

The Recreation & 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 2014, this fund recognized $575,700, in revenues, primarily related to rentals and leases. In addition, the general fund transferred $233,190 to this fund to eliminate the 2014 deficit. This fund expended $808,890 , $86,692 or 12.00% over the 2013 amount.

Because of the transfer to fund, it reported ending fund balance of zero, the same amount as December 31, 2013.

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

During 2014, this fund recognized $1,994,608 in revenues, primarily property taxes and charges for services. This amount is $200,076 or 11.15% more than the calendar year 2013 amount. In addition, the general fund transferred $33,899 to this fund to eliminate the operating deficit. Because of the transfer to fund, it reported ending fund balance of zero, the same amount as December 31, 2013.

Park Acquisition and Development Fund - This fund is financed from park mitigation fees and grants to finance expenditures for park development.

During 2014, this fund recognized $521,393 in revenues, primarily intergovernmental revenue of $450,000 for the Japanese Gulch land purchase. The ending fund balance was $189,846.

The Real Estate Excise Tax I Fund - This fund is financed from 50% of the revenues the City receives from taxes levied on the sale of real estate and may only be used to fund capital projects.

During 2014, this fund recognized $4,089,511 of revenue, primarily from intergovernmental aid for the Japanese Gulch land purchase. Current year capital outlay expenditures were $4,692,684, again related to the Japanese Gulch land purchase. The ending fund balance was $2,632,269.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's revenue budget was amended upward in calendar year 2014 by just $23,500 or less than 1.00%. This adjustment primarily was to increase the intergovernmental and charges for services budgets.

In total, tax revenue was $33,610 below the budget. The sales tax revenue was $190,478 above the final budget, while other taxes and assessments were $205,756 below the final budget.

In total, the City realized 101.95% of estimated revenues.

With regard to General Fund expenditure budget, it was amended upward $624,687 or 5.07%.

In total, the public safety budget was overspent by $404,749 or 5.41%. The natural and economic environment was over the budget by $90,391 or 7.06%.

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, 2014 was a 1.48% increase for governmental activities and a 7.92% decrease for business-type activities. The overall increase was 1.24% 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, 2013 and 2014.

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Nondepreciable assets:						
Land	$ 31,626,985	$ 26,226,985	$ 150,000	$ 150,000	$ 31,776,985	$ 26,376,985
Right of way	10,580,181	10,580,181	-	-	10,580,181	10,580,181
Art collections	190,164	192,689	-	-	190,164	192,689
Construction in progress	539,398	4,121,089	78,504	633,641	617,902	4,754,730
Total nondepreciable assets	42,936,728	41,120,944	228,504	783,641	43,165,232	41,904,585
Depreciable assets:						
Buildings	27,952,020	27,952,020	-	-	27,952,020	27,952,020
Other improvements	10,671,697	8,324,363	6,900,011	6,270,483	17,571,708	14,594,846
Machinery and equipment	9,678,641	8,830,688	258,971	209,831	9,937,612	9,040,519
Infrastructure	264,230,755	264,165,510	-	-	264,230,755	264,165,510
Total depreciable assets	312,533,113	309,272,581	7,158,982	6,480,314	319,692,095	315,752,895
Less accumulated depreciation	172,489,456	170,655,188	3,277,605	3,036,132	175,767,061	173,691,320
Book value - depreciable assets	140,043,657	138,617,393	3,881,377	3,444,182	143,925,034	142,061,575
Percentage depreciated	55%	55%	46%	47%	55%	55%
Book value - all assets	$ 182,980,385	$ 179,738,337	$ 4,109,881	$ 4,227,823	$ 187,090,266	$ 183,966,160

At December 31, 2014, the depreciable capital assets for governmental activities were 55% depreciated, which is consistent with capital assets as of December 31, 2013.

Governmental activities – The $5.4 million in additions to the land account were for the Japanese Gulch land purchase. The other improvements include costs of $2.3 million consisting primarily of:

- Lighthouse Park Phase 2 project
- Playground equipment
- Japanese Gulch culvert and trails
- Council chamber renovation

The increases in machinery and equipment include the purchase of two fire engines.

The City has performed two pavement condition assessments since adopting the modified approach, first in 2007 and again in 2014. In the current assessment 83.4% of the streets were maintained at a level of very good or excellent, whereas in 2007 70.6% of roads were maintained at a level of very good or excellent. The City's goal is to maintain the City wide pavement system at a condition level of very good or better. While the ratings have improved nearly 10% over the last seven years, the City is not currently meeting that goal. Of the remaining 16.6%, 11.6% of our streets are in good condition, 3.8% in poor condition, and 1.2% in very poor condition. In 2014 the City planned to spend $317,000 on maintaining the street infrastructure with actual spending of $16,200, due to a plan to hold expenditures until 2015 for a larger investment. In 2014 the City re-wrote the pavement management plan to consider other pavement maintenance techniques so maintenance projects on streets were put on hold. Beginning in 2015 the City moved forward with a pilot project using a bonded wearing course. See the required supplementary information for additional details on the 2014 and 2007 pavement condition assessments.

Long-Term Debt

The following table reports outstanding long-term debt at both December 31, 2014 and 2013.

Outstanding Borrowings						
	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
General obligation bonds	$ 10,175,000	$ 10,685,000	$ -	$ -	$ 10,175,000	$ 10,685,000
Capital leases	4,981	9,963	-	-	4,981	9,963
Compensated absences	921,679	992,985	33,432	36,055	955,111	1,029,040
Other post-employment benefits	176,064	139,710	-	-	176,064	139,710
Total	$ 11,277,724	$ 11,827,658	$ 33,432	$ 36,055	$ 11,311,156	$ 11,863,713

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 2014 principal payment of $510,000 reduced the outstanding bond debt to $10,175,000 as of the end of 2014. Annual principal and interest payments are made from funding provided by the City's Real Estate Excise Tax I and II funds.

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 2015 budget is a continuation of our plan to keep the City on solid ground for providing services to our citizens during 2015 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 2015 Budget lays out the City's vision for achieving our immediate priorities and implementing our long-term goals beyond 2015.

The budget emphasizes working with the resources that we have. As it stands now, Mukilteo is in good economic shape. Bank-owned homes represent a small fraction of the houses on the market, and area employers, including Boeing, are hiring again. The City continues to spend to keep its infrastructure in good shape.

Standard & Poor's spent many hours in understanding the City's finances and financial polices while developing their credit rating for the Community Center bond issue. Standard & Poor's research was concluded by recognizing our City's unique financial position and renewing their highest rating (AAA)/Negative in October 2015. This rating stated more about what kind of City Mukilteo has become and where we are headed than simply telling investors we are a safe haven to invest in. To quote Standard & Poor's bond rating rationale, they state the basis for our credit strengths include:

- 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;
- Adequate institutional framework score.

Much time will be spent in 2015 working 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 five areas: the City's Comprehensive Plan, maintaining our infrastructure, keeping our community safe, development of the City's Long-range Financial Plan, and protecting Paine Field for airplane and related manufacturing.

The City's **main priority** for the past eight years: **Keeping Our Community Safe**. During the past eight years we strategically staffed our Police and Fire departments with the goal to fully provide efficient, fast, and reliable emergency medical, fire response, and law enforcement. The 2015 budget provides funding to maintain this goal.

Under Mayor Gregerson's leadership, the City's broad goal is **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 2015 budget plan recognizes that 2014 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.

<u>2015 Budget Overview</u>

Budgeted revenues and transfers in for all funds total $24.0 million. Total budgeted expenditures and transfers out total $24.2 million.

In keeping with the City's fiscally conservative approach, the budget includes an estimated ending General Fund, fund balance of $3,823,169, which equals 26.5% of 2015 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
As of December 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 12,264,871	$ 627,819	$ 12,892,690
Accounts receivable	291,415	783,591	1,075,006
Taxes receivable	955,289	-	955,289
Prepaid assets	1,000	-	1,000
Noncurrent assets:			
Investment in joint ventures	680,104	-	680,104
Capital assets not being depreciated:			
Land	31,626,985	150,000	31,776,985
Right of way easements	10,580,181	-	10,580,181
Art collections	190,164	-	190,164
Construction in progress	539,398	78,504	617,902
Capital assets, net of accumulated depreciation:			
Buildings	22,541,945	-	22,541,945
Other improvements	7,403,674	3,719,444	11,123,118
Machinery and equipment	4,483,572	161,933	4,645,505
Infrastructure	105,614,466	-	105,614,466
Total Assets	197,173,064	5,521,291	202,694,355
LIABILITIES			
Current liabilities:			
Accounts payable	380,114	117,984	498,098
Accrued wages	532,782	28,058	560,840
Deposits payable	231,351	-	231,351
Noncurrent liabilities:			
Due within one year	1,411,683	31,350	1,443,033
Due in more than one year	10,121,358	2,082	10,123,440
Unearned revenue	191,585	-	191,585
Total Liabilities	12,868,873	179,474	13,048,347
NET POSITION			
Net investment in capital assets	172,805,385	4,109,881	176,915,266
Restricted for:			
Capital	3,826,980	-	3,826,980
Reserves	365,820	-	365,820
Other purposes	467,786	-	467,786
Unrestricted	6,838,220	1,231,936	8,070,156
Total Net Position	$ 184,304,191	$ 5,341,817	$ 189,646,008

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

Statement of Activities
For the year ended December 31, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary government:							
Governmental activities:							
General government	$ 3,764,540	$ 1,687,715	$ 371,311	$ 4,267,411	$ 2,561,897	$ -	$ 2,561,897
Public safety	9,745,072	668,812	37,064	-	(9,039,196)	-	(9,039,196)
Transportation	1,582,178	139,163	421,294	2,911	(1,018,810)	-	(1,018,810)
Natural and economic environment	1,349,307	85,000	372	-	(1,263,935)	-	(1,263,935)
Culture and recreation	2,585,831	829,829	-	-	(1,756,002)	-	(1,756,002)
Interest on long-term debt	395,963	-	-	-	(395,963)	-	(395,963)
Total governmental activities:	19,422,891	3,410,519	830,041	4,270,322	(10,912,009)	-	(10,912,009)
Business-type activities:							
Surface water	2,288,935	1,305,245	727,990	-	-	(255,700)	(255,700)
Total business-type activities:	2,288,935	1,305,245	727,990	-	-	(255,700)	(255,700)
Total primary government	$ 21,711,826	$ 4,715,764	$ 1,558,031	$ 4,270,322	$ (10,912,009)	$ (255,700)	$ (11,167,709)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Property taxes	$ 6,555,496	$ -	$ 6,555,496
Sales taxes	2,977,147	-	2,977,147
Other taxes and assessments	3,791,199	-	3,791,199
Interest earnings	50,301	4,863	55,164
Miscellaneous Revenue	283,045	6,321	289,366
Transfers	50,000	(50,000)	-
Total general revenues and transfers	13,707,188	(38,816)	13,668,372
Change in net position	2,795,179	(294,516)	2,500,663
Net position - beginning	183,254,389	5,871,998	189,126,387
Prior period adjustment	(1,745,377)	(235,665)	(1,981,042)
Restated net position - beginning	181,509,012	5,636,333	187,145,345
Net position - ending	$ 184,304,191	$ 5,341,817	$ 189,646,008

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

Balance Sheet - Governmental Funds

As of December 31, 2014

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Park Acquisition & Development	REET I	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 5,278,148	$ 263,587	$ 63,698	$ 489,846	$ 2,604,462	$ 1,523,330	$ 10,223,071
Accounts receivable	221,835	4,329	63,359	-	1,893	-	291,416
Taxes receivable	776,042	-	4,777	-	34,277	140,193	955,289
Prepaid assets	1,000	-	-	-	-	-	1,000
Total assets	6,277,025	267,916	131,834	489,846	2,640,632	1,663,523	11,470,776
LIABILITIES							
Accounts payable	217,725	14,765	39,621	-	6,470	38,874	317,455
Accrued wages	414,225	19,730	70,682	-	-	19,966	524,603
Deposits payable	189,301	42,050	-	-	-	-	231,351
Interfund loans payable	-	-	-	300,000	-	-	300,000
Unearned revenue	214	191,371	-	-	-	-	191,585
Total liabilities	821,465	267,916	110,303	300,000	6,470	58,840	1,564,994
DEFERRED INFLOWS							
Unavailable revenue - receivables	21,859	-	21,531	-	1,893	-	45,283
Total deferred inflows	21,859	-	21,531	-	1,893	-	45,283
FUND BALANCES							
Nonspendable	1,000	-	-	-	-	-	1,000
Restricted	152,296	-	-	189,846	2,632,269	1,384,673	4,359,084
Committed	1,301,502	-	-	-	-	-	1,301,502
Assigned	2,404,263	-	-	-	-	220,010	2,624,273
Unassigned	1,574,640	-	-	-	-	-	1,574,640
Total fund balance	$ 5,433,701	$ -	$ -	$ 189,846	$ 2,632,269	$ 1,604,683	$ 9,860,499

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	180,435,086
Other long-term assets are not available to pay for current period expenditures and, thereforeare not reported in the funds.	680,104
Deferred inflows that are not avaialble in the current period, and therefore, are not reported in the funds.	45,283
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(11,510,051)
Internal service funds are used by management to charge the costs of certain activities, such as facilities maintenance and equipment repair, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	4,793,270
Net position of governmental activities	$ 184,304,191

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, 2014

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Park Acquisition & Development	REET I	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes	$ 4,842,788	$ -	$ 1,712,708	$ -	$ -	$ -	$ 6,555,496
Sales taxes	2,732,978	-	-	-	-	244,169	2,977,147
Other taxes and assessments	2,819,744	-	-	-	469,120	502,335	3,791,199
Licenses and permits	1,326,124	525	-	-	-	-	1,326,649
Intergovernmental	396,843	-	11,905	450,000	3,599,395	640,328	5,098,471
Charges for services	638,882	145,049	269,679	68,264	-	139,163	1,261,037
Fines and forfeitures	145,248	-	-	-	-	-	145,248
Rents and leases	212,200	421,996	-	-	-	-	634,196
Interest earnings	19,400	1,180	316	3,129	12,445	8,361	44,831
Contributions and donations	12,472	6,950	-	-	-	-	19,422
Miscellaneous revenues	230,249	-	-	-	8,551	591	239,391
Total revenues	13,376,928	575,700	1,994,608	521,393	4,089,511	1,534,947	22,093,087
EXPENDITURES							
General government	3,116,604	-	-	-	119,107	-	3,235,711
Public safety	7,082,588	-	2,060,554	-	-	-	9,143,142
Transportation	354,460	-	-	-	59,116	887,439	1,301,015
Natural and economic environment	1,189,824	-	-	-	-	152,321	1,342,145
Culture and recreation	660,678	808,890	-	-	-	-	1,469,568
Debt service:							
Principal	-	-	-	-	-	510,000	510,000
Interest and other debt costs	5	-	-	-	-	396,599	396,604
Capital outlay:							
Capital outlay	79,414	-	6,618	450,000	4,692,684	219,034	5,447,750
Total expenditures	12,483,573	808,890	2,067,172	450,000	4,870,907	2,165,393	22,845,935
Excess (deficiency) of revenues over expenditures	893,355	(233,190)	(72,564)	71,393	(781,396)	(630,446)	(752,848)
OTHER FINANCING SOURCES (USES)							
Transfers in	88,000	233,190	33,899	-	20,000	1,234,688	1,609,777
Transfers out	(912,089)	-	-	-	(874,190)	(313,498)	(2,099,777)
Total other financing sources (uses)	(824,089)	233,190	33,899	-	(854,190)	921,190	(490,000)
Net change in fund balances	69,266	-	(38,665)	71,393	(1,635,586)	290,744	(1,242,848)
Fund balances - beginning	5,477,574	-	130,151	118,453	4,267,855	1,323,845	11,317,878
Prior period adjustment	(113,139)	-	(91,486)	-	-	(9,906)	(214,531)
Restated fund balances - beginning	5,364,435	-	38,665	118,453	4,267,855	1,313,939	11,103,347
Fund balances - ending	$ 5,433,701	$ -	$ -	$ 189,846	$ 2,632,269	$ 1,604,683	$ 9,860,499

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the year ended December 31, 2014

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances for governmental funds		$ (1,242,848)
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.		3,184,069
Capital outlays	5,447,750	
Depreciation	(2,088,570)	
Disposals	(169,102)	
Asset transfer to internal service funds	(6,009)	
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.		492,592
Bonds payable	510,000	
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.		69,568
Investment in joint ventures	24,285	
Deferred inflows	45,283	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, is not reported as expenditures in the government funds.		34,953
Compensated absences	71,307	
Post employment benefit obligation	(36,354)	
Internal service funds are used by management to charge the costs of certain activities, such as facility maintenance and equipment repair to individual funds. This consists of:		256,845
Change in net position of governmental activities		$ 2,795,179

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

Statement of Net Position - Proprietary Funds

As of December 31, 2014

	Business-type Activities	Governmental Activities
	Surface Water Management	**Internal Service Funds**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 627,819	$ 2,041,801
Accounts receivable	783,591	-
Interfund loans receivable	-	300,000
Total current assets	1,411,410	2,341,801
Noncurrent assets:		
Capital assets:		
Land	150,000	-
Art collections	-	8,799
Construction in progress	78,504	-
Buildings	-	14,109
Other Improvements	3,719,444	41,055
Machinery and equipment	161,933	2,481,335
Total capital assets, net depreciation	4,109,881	2,545,298
Total noncurrent assets	4,109,881	2,545,298
Total assets	5,521,291	4,887,099
LIABILITIES		
Current liabilities:		
Accounts payable	117,984	62,659
Accrued wages	28,058	8,180
Total current liabilities	146,042	70,839
Noncurrent liabilities		
Due within one year	31,350	21,869
Due in more than one year	2,082	1,121
Total noncurrent liabilities	33,432	22,990
Total liabilities	179,474	93,829
NET POSITION		
Net investment in capital assets	4,109,881	2,545,298
Unrestricted	1,231,936	2,247,972
Total net position	$ 5,341,817	$ 4,793,270

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, 2014

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
Operating revenues:		
Charges for services	$ 1,305,245	$ 593,837
Intergovernmental	727,989	-
Total operating revenues	2,033,234	593,837
Operating expenses:		
Operations and maintenance	2,034,786	547,287
Depreciation	254,149	323,412
Total operating expenses	2,288,935	870,699
Operating income (loss)	(255,701)	(276,862)
Non-operating revenues (expenses):		
Interest earnings	4,863	5,757
Gain(loss) on disposal of asset	(4,863)	(12,543)
Other non-operating	11,185	493
Total non-operating revenue (expenses)	11,185	(6,293)
Income (loss) before transfers	(244,516)	(283,155)
Transfers in	-	540,000
Transfers out	(50,000)	-
Change in net position	(294,516)	256,845
Net position - beginning	5,871,998	4,700,547
Prior period adjustment	(235,665)	(164,122)
Restated net position - beginning	5,636,333	4,536,425
Net position - ending	$ 5,341,817	$ 4,793,270

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, 2014

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Customers	$ 790,635	$ -
Interfund services provided	-	593,837
Other governments	727,989	-
Cash payments to:		
Suppliers for goods and services	(1,144,968)	(169,494)
Interfund services used	(36,080)	-
Employees	(617,344)	(471,874)
Other governments	(152,712)	-
Net cash provided by (used for) operating activities	(432,479)	(47,531)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers in	-	540,000
Operating transfers out	(50,000)	-
Net cash provided by (used for) noncapital financing activities	(50,000)	540,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from:		
Interfund loans	-	72,569
Other governments	11,185	-
Payments for:		
Interfund loans	-	(300,000)
Capital assets	(141,069)	(373,307)
Net cash provided by (used for) capital related financing activities	(129,884)	(600,738)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,863	5,757
Net cash provided by investing related activities	4,863	5,757
Net increase (decrease) in cash balance	(607,500)	(102,512)
Cash balance at beginning of year	1,235,319	2,144,313
Cash balance at end of year	$ 627,819	$ 2,041,801

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, 2014

	Business-type Activities	Governmental Activities
	Surface Water Management	**Internal Service Funds**
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (255,701)	$ (276,862)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	254,149	323,412
Decrease (increase) in accounts receivable	(514,610)	-
Increase (decrease) in accounts payable	102,156	(96,905)
Increase (decrease) in employee benefits	(18,473)	2,824
Net cash provided by operating activities	$ (432,479)	$ (47,531)
Schedule of noncash capital, investing, and financing activities:		
Depreciation	(254,149)	(323,412)
Prior period adjustment	(235,665)	(164,122)

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

Statement of Net Position - Fiduciary Funds
As of December 31, 2014

	Agency Fund
ASSETS	
Cash and cash equivalents	$ 36,920
Total assets	36,920
LIABILITIES	
Liabilities payable from restricted assets	36,920
Total liabilities	$ 36,920

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, street improvement, and general administrative services. In addition, the City owns and operates a surface water management system.

As required by GAAP, the City's financial statements present the City of Mukilteo, the primary government. There are no component units included in these statements.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are 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.

Separate **fund financial statements** are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported 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 un-matured 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.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally restricted resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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 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, Health Insurance Administration Reserve Fund, Unemployment Compensation Reserve Fund, and the Technology Replacement Fund.

The **Recreation and Cultural Services Center 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 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) services.

The **Real Estate Excise Tax I Fund** receives 50% of the revenues the City receives from taxes levied on the sale of real estate. By law, these revenues must be used solely for capital projects.

The **Parks Acquisition and Development Fund** receives revenue from park mitigation fees and grants, and is used to finance expenditures for park development.

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.

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/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.

The **Arterial Street Fund** is no longer in use.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt:

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.

Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds):

The **Transportation Impact Fee Fund** receives revenues from fees which are authorized under the State Environmental Policy Act (SEPA) and the Growth Management Act (GMA) to help offset the cost of transportation capital facilities needed to accommodate new growth and development. Impact fee revenues collected are used to design, engineer, and construct transportation facilities that are consistent with the capital facilities and transportation elements of the Mukilteo comprehensive plan.

The **Real Estate Excise Tax II Fund** receives the remaining 50% of the revenues the City receives from taxes levied on the sale of real estate. Revenues must be used for capital projects.

The **Municipal Facilities Fund** receives transfers from the General Fund which are used to construct City facilities.

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** receives transfers from the General Fund, which are used to finance expenditures related to the maintenance of City facilities.

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, debt service and capital project 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 have been no material violations of finance related legal or contractual provisions in any major or non-major City fund.

E. Assets, Liabilities, 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 facilities 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. At December 31, 2014, the treasurer was holding short-term deposits with the State Investment Pool and the County Investment Pool. The interest on these deposits is prorated to the various funds.

3. Receivables (Note 4)
   Taxes receivable consist of property taxes and related interest and penalties.

   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.

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.

5. Inventory and Prepaid Items
   Inventories are valued at the FIFO (first in, first out) 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. 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 fund, specifically used for the purpose of debt service or capital replacement.

7. 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

8. Compensated Absences
   Compensated absences are absences for which employees will be paid, such as vacation, compensatory time in lieu of overtime, 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. 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. 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.

10. Unearned Revenue
    Unearned revenue is a liability for resources obtained, that does not qualify for recognition as a 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.

11. Deferred Inflows
    Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available.

12. Fund Balances

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

The details of fund balance classifications as reported on the Balance Sheet – Governmental Funds are as follows for December 31, 2014:

	General Fund	Recreation & Cultural Services	Emergency Medical Services	Park Acquisition & Development	REET I	Other Governmental Funds	Total Governmental Funds
FUND BALANCES							
Nonspendable							
Prepaid items	1,000	-	-	-	-	-	1,000
Restricted							
Capital	-	-	-	189,846	2,632,269	1,004,865	3,826,980
Debt service	-	-	-	-	-	8,958	8,958
Natural environment	85,000	-	-	-	-	-	85,000
Public safety	-	-	-	-	-	28,533	28,533
Self insurance	67,296	-	-	-	-	-	67,296
Tourism	-	-	-	-	-	273,798	273,798
Transportation	-	-	-	-	-	68,519	68,519
Committed							
Culture and recreation	2,978	-	-	-	-	-	2,978
Contingency reserve	1,000,000						1,000,000
Employee benefits	147,693	-	-	-	-	-	147,693
Technology reserve	150,831	-	-	-	-	-	150,831
Assigned							
Operating reserve	2,404,263	-	-	-	-	220,010	2,624,273
Unassigned	1,574,640	-	-	-	-	-	1,574,640
Total fund balance	$ 5,433,701	$ -	$ -	$ 189,846	$ 2,632,269	$ 1,604,683	$ 9,860,499

Fund balances classified as committed can only be used for specific purposes as prescribed by the City Council via a 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 resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purposes, it is the City's practice to use restricted resources first. Furthermore, when committed, assigned, and unassigned resources can be used for the same purpose, it is the City's practice to use committed resources first, assigned second, and unassigned last.

Note 2: Stewardship, Compliance and Accountability

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

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.

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.

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.

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 the using 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
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 Deposit Protection Commission (PDPC).

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 that are in the position of outside parties.

Investments

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.

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.

Deposits and investments in financial institutions consist of the following as of December 31, 2014;

Deposits and investments	**Maturities**	**Fair Value**
Snohomish County Local Invesment Pool	Less than one year	$ 10,524,041
State of Washington Local Government Investment Pool	Less than one year	418,372
Deposits in U.S. Bank		2,398,787
		$ 13,341,200

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 $3.100 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.

Capital asset activity for the year ended December 31, 2014 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 26,226,985	$ 5,400,000	$ -	$ 31,626,985
Right of way	10,580,181	-	-	10,580,181
Art collections	192,689	-	(2,525)	190,164
Construction in progress	4,121,089	5,391,166	(8,972,857)	539,398
Total capital assets, not being depreciated	41,120,944	10,791,166	(8,975,382)	42,936,728
Capital assets, being depreciated/amortized:				
Buildings	27,952,020	-	-	27,952,020
Other improvements	8,324,363	2,347,334	-	10,671,697
Machinery & equipment	8,830,688	1,595,403	(747,450)	9,678,641
Infrastructure	264,165,510	65,245	-	264,230,755
Total capital assets, being depreciated	309,272,581	4,007,982	(747,450)	312,533,113
Less accumulated depreciation/amortization for:				
Buildings	(4,622,628)	(787,447)	-	(5,410,075)
Other improvements	(2,751,471)	(516,469)	(83)	(3,268,023)
Machinery & equipment	(4,926,409)	(846,457)	577,797	(5,195,069)
Infrastructure	(158,354,680)	(261,609)	-	(158,616,289)
Total accumulated depreciation	(170,655,188)	(2,411,982)	577,714	(172,489,456)
Total capital assets, being depreciated, net	138,617,393	1,596,000	(169,736)	140,043,657
Governmental activities capital assets, net	$ 179,738,337	$ 12,387,166	$ (9,145,118)	$ 182,980,385

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 150,000	$ -	$ -	$ 150,000
Right of way	-	-	-	-
Art collections	-	-	-	-
Construction in progress	633,641	21,492	(576,629)	78,504
Total capital assets, not being depreciated	783,641	21,492	(576,629)	228,504
Capital assets, being depreciated:				
Buildings	-	-	-	-
Other improvements	6,270,483	634,473	(4,945)	6,900,011
Machinery & equipment	209,831	61,733	(12,593)	258,971
Infrastructure	-	-	-	-
Total capital assets, being depreciated	6,480,314	696,206	(17,538)	7,158,982
Less accumulated depreciation for:				
Buildings	-	-	-	-
Other improvements	(2,941,257)	(239,393)	83	(3,180,567)
Machinery & equipment	(94,875)	(14,756)	12,593	(97,038)
Infrastructure	-	-	-	-
Total accumulated depreciation	(3,036,132)	(254,149)	12,676	(3,277,605)
Total capital assets, being depreciated, net	3,444,182	442,057	(4,862)	3,881,377
Business-type capital assets, net	$ 4,227,823	$ 463,549	$ (581,491)	$ 4,109,881

As of January 1, 2012, the City changed from the depreciation approach to the modified approach in calculating depreciation of streets. GASB No. 37 permits this change in accounting estimate to be applied prospectively. Therefore, streets will continue to be reported at cost less accumulated depreciation at the time the modified approach was adopted.

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

Governmental activities:	
General government	$ 464,539
Public safety	494,638
Transportation	318,959
Natural & economic environment	17,797
Culture & recreation	1,116,049
Total depreciation expense	$ 2,411,982

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

Business-type activities:	
Surface Water	$ 254,149
Total depreciation expense	$ 254,149

Note 6: Pension Plans

Substantially all City of Mukilteo (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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate 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 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment. PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.
PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Non-vested	101,191
Total	**368,272**

Funding Policy
Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	***PERS Plan 2***	***PERS Plan 3***
Employer*	9.21%	9.21%	9.21%**
Employee	6.00%	4.92%	***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2014	$15,451	$247,259	$51,950
2013	12,832	223,056	37,339
2012	8,998	181,517	45,257

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description
LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings, in lieu of any retirement benefit, upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50.

The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

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 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If there is an eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If there is no eligible spouse, eligible children receive 30 percent of the FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of the FAS, divided equally.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability benefit is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. 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 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of eligible health care insurance premiums.

Legislation passed in 2009 provides to the Washington state registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

LEOFF members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	10,511
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	699
Active Plan Members Vested	16,830
Terminated Plan Members Nonvested	1,600
Total	**29,640**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent, as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

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 DRS' Fiscal Year 2014, the state contributed $55.6 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.18%	5.23%
Employee	0.00%	8.41%
State	N/A	3.36%

*The employer rates include the employer administrative expense fee currently set at 0.18%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2014	$ -	$271,489
2013	-	263,090
2012	-	260,068

Note 7: Other Personnel Benefits

Deferred Compensation

The City provides 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 2014 ages were as follows: one member at the age of 63 and one member at the age of 75. 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:

	12/31/2012	12/31/2013	12/31/2014
Determination of Annual Required Contribution			
Normal Cost	$ -	$ -	$ -
Amortization of Unfunded Actuarial Accrued Liability	56,772	54,503	77,415
Annual Required Contribution	56,772	54,503	77,415
Determination of Net OPEB Obligation			
Annual Required Contribution	56,772	54,503	77,415
Adjustment to Annual Required Contribution	(5,258)	(6,039)	(6,977)
Annual OPEB Cost	51,514	48,464	70,438
Contributions Made	35,284	34,269	34,084
Increase in Net OPEB Obligation	16,230	14,195	36,354
Net OPEB Obligation - beginning	109,285	125,515	139,710
Net OPEB Obligation - ending	$ 125,515	$ 139,710	$ 176,064

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

Valuation Date	Annual OPEB Cost	Employer Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	$ 70,438	$ 34,084	48.39%	$ 176,064
December 31, 2013	48,464	34,269	70.71%	139,710
December 31, 2012	51,514	35,284	68.49%	125,515

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 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.
Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self-insured layer, and $16 million per occurrence in the re-insured excess layer.

The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

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

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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, 2014;

	2013	2014
IBNR claims at beginning of year	$ 1,450	$ 1,800
Current year claims	2,817	47,930
Claim payments	(2,467)	(42,242)
IBNR claims at end of year	$ 1,800	$ 7,488

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, 2014;

	2013	2014
IBNR claims at beginning of year	$ -	$ -
Current year claims	184,040	200,745
Claim payments	(184,040)	(203,630)
IBNR claims at end of year	$ -	$ (2,885)

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 a new community center. This debt was issued with a premium of $348,159 which is amortized over the life of the bond and issuance costs of $129,398 which are expensed on issuance. This debt has been issued for the general government and will be repaid with real estate excise taxes.

At December 31, 2014, the City had the following general obligation bonds outstanding:

Pupose	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	$10,685,000	$ -	$ 510,000	$10,175,000
Total General Obligation Bonds				$12,585,000	$10,685,000	$ -	$ 510,000	$10,175,000

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

Year Ending	Governmental Activities	
December 31,	Principal	Interest
2015	$ 525,000	$ 382,613
2016	545,000	363,962
2017	560,000	347,613
2018	580,000	328,963
2019	600,000	307,300
2020-2024	3,330,000	1,204,700
2025-2029	4,035,000	496,800
Total	$ 10,175,000	$ 3,431,751

Note 10: Leases and Other Contractual Commitments

Capital Leases

In 2011 the City entered into a non-cancelable lease agreement for the purchase of a police vehicle out of the Equipment Replacement fund. This lease agreement qualifies as a capital lease for accounting purposes, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

Asset	Governmental Activities
M&E - BMW Motorcycle	$ 25,058
Less Accumulated Depreciation	(20,076)
Total	$ 4,982

The remaining future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2014 were; $4,981.58 for the year ending December 31, 2015.

Year Ended December 31,	Governmental Activities
2015	$ 4,982
Total Minimum Lease Payments	$ 4,982
Less: Interest	(315)
Present Value of Minimum Lease Payments	$ 4,667

Other Contractual Commitments

The City had the following significant contractual obligations on construction projects at December 31, 2014:

Contracting Entity	Project Name	Balance
Perteet, Inc	SR 526 Bicycle - Pedestrian Pathway	$ 179,467
Brown & Coldwell	Stormwater Management Plan	194,000
Tuttle Engineering & Management, LLC	61st Place Culvert	61,049
	Total Significant Contracts	$ 434,516

Note 11: Changes in Long-Term Liabilities

Changes in long-term liabilities are as follows for the year ended December 31, 2014:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	$ 10,685,000	$ -	$ 510,000	$ 10,175,000	$ 525,000
Unamortized bond premium	272,725	-	17,408	255,317	17,408
Capital lease	9,963		4,982	4,981	4,981
Compensated absences	992,985	814,331	885,637	921,679	864,294
Other postemployment benefits	139,710	36,354	-	176,064	-
Total governmental activity - long-term liabilities	12,100,383	850,685	1,418,027	11,533,041	1,411,683
Business-type activities:					
Compensated absences	36,055	27,919	30,542	33,432	31,350
Total business-type activites long-term liabilities	36,055	27,919	30,542	33,432	31,350
Total long-term liabilities	$ 12,136,438	$ 878,404	$ 1,448,569	$ 11,566,473	$ 1,443,033

Note 12: Contingencies and Litigation

As of December 31, 2014, there were several damage claims and lawsuits pending against the City. It is the opinion of management and the City Attorney that the disposition of these claims 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 to the fund that statute or budget requires to expend them, 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, 2014 are as follows:

Fund	Transfers in	Transfers out
General	88,000	912,089
Street	323,518	-
Arterial Street	-	123,518
Recreation & Cultural Services	233,190	-
Hotel/Motel Lodging Tax	5,000	-
Emergency Medical Services	33,899	-
Government Obligation Bond	906,170	-
Transportation Impact Fee	-	20,000
REET I	20,000	874,190
REET II	-	169,980
Surface Water Management	-	50,000
Facility Maintenance	540,000	-
Total	$ 2,149,777	$ 2,149,777

Interfund loans

Interfund loan activity between funds as of December 31, 2014 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Receivable:					
Equipment Replacement Fund	$ 72,569	$ 300,000	$ 72,569	$ 300,000	$ 30,000
Total receivable	$ 72,569	$ 300,000	$ 72,569	$ 300,000	$ 30,000
Payable:					
Hotel/Motel Lodging Tax	$ 72,569	$ -	$ 72,569	$ -	$ -
Park Acquisition & Development	-	300,000	-	300,000	30,000
Total payable	$ 72,569	$ 300,000	$ 72,569	$ 300,000	$ 30,000

Amount of Loan	Purpose	From Fund	To Fund	Term
$ -	Visitor Center	Equipment Replacement	Hotel/Motel Lodging Tax	12/31/2014
300,000	Japanese Gulch Land & Master Plan	Equipment Replacement	Park Acquisition & Development	12/31/2024

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, 2014 is $242,747. This value has been recorded in the government-wide statements as an investment in joint venture.

Southwest Snohomish County Public Safety Communications Agency

Snohomish County Public Safety Communications Agency (SNOCOM) is 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 cities of Brier, Edmonds, Lynnwood, Mill Creek, Mountlake Terrace, and Mukilteo; the town of Woodway; 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 and fire district 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. The City of Mountlake Terrace, which acts as the entity's fiscal agent under 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, and 6100 219th St SW, Suite 200, Mountlake Terrace, WA 98043.

SNOCOM is reported as a governmental joint venture. The city of Mukilteo's share of the assets and equity as of December 31, 2014 is $437,358. This value has been recorded in the government-wide statements as an investment in joint venture.

Alliance for Housing Affordability

The purpose of Alliance for Housing Affordability (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. In September 2013, the City of Mukilteo joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, and Snohomish; the Town of Woodway; and Snohomish County to establish AHA. The agreement was amended in May 2014 to add the City of Arlington and in June 2014 to add the City of Stanwood. 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, 2014 is $1,245, 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, as well as financial statements, can be obtained from Finance Director, City of Mountlake Terrace; 6100 219th Street SW, Mountlake Terrace WA 98043 or from the Alliance for Housing Affordability, 12625 4th Ave W, Suite 200, Everett, WA 98204.

Emergency Services Coordinating Agency

Emergency Service Coordinating Agency (ESCA) is a joint venture with ten member agencies who provide the majority of operating revenue. The method of allocating this revenue source is defined in the Interlocal Agreement for the Emergency Services Coordinating Agency Section 4 Budgeting and Financial Participation 4.1 "Annual budget participation shall be based upon the population of each party compared to the total population of the parties. Operating payments shall be made by January 31 of each year". Section 7 Term and Dissolution states, "The value of the assets shall be then apportioned between the parties to the agreement in the same proportion as their financial participation in the budget year of dissolution".

On June 25, 2015 the Agency members passed resolution (2015-3) to dissolve ESCA during the 2015 fiscal year. The Agency is currently working to determine the full equity interest to be allocated to each member upon dissolution. The City of Mukilteo's equity share as of December 31, 2014 was $22,540, this is not considered material therefore the value has not been recorded in the financial statements.

Note 15: Other disclosures

Prior period adjustment

The financial statements have been restated to correct items classified as capital assets in prior years that do not meet the definition of a capital asset, errors in reported depreciation and accumulated depreciation, revenue recorded as a receivable that was never considered collectible, and unrecorded liabilities related to compensated absences.

The net effect of these misstatements in the fund statements are as follows for the year ended December 31, 2014;

General fund, decrease in fund balance of $113,139
Emergency Medical Services fund, decrease in fund balance of $91,486
Other non-major governmental funds, decrease in fund balance of $9,906
Surface Water Management fund, decrease in fund balance of $235,665
Internal Service funds, decrease in fund balance of $164,122

The net effect of these misstatements in the government-wide statements are as follows for the year ended December 31, 2014;

Governmental, decrease in net position of $1,745,377
Business-type activities, decrease in net position of $235,665

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 and 2014 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 Pavement Management Program will be updated in 2015 to include a menu of techniques and updated funding plan.

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 90 are considered to be "excellent" condition and would require no resurfacing treatment. Streets with PCI scores from 70 to 89 are considered "very good", however, 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, single chip seal or double chip seal surface treatment. Streets with PCI scores between 25 and 49 are considered "poor" and generally require a thick asphalt overlay. Street with scores below 25 are "very poor" and are in need of surface reconstruction.

The City completed a pavement condition assessment in 2007 and again in 2014. A summary of the assessment completed in 2014 is shown in the table below:

Table 1
Overall Pavement Condition Assessment 2007 and 2014

	2007		**2014**	
Condition Rating	**Miles**	**Percentage**	**Miles**	**Percentage**
Excellent	22.6	37.1%	7.0	11.5%
Very Good	20.4	33.5%	43.8	71.9%
Good	13.1	21.5%	7.1	11.7%
Poor	4.8	7.9%	2.3	3.8%
Very Poor	0	0.0%	0.7	1.2%
Total	**60.9**		**60.9**	

The City's goal is to maintain the City wide pavement system at a condition level of very good or better. The City street system is broken down into four functional classifications: Arterial, Urban Minor Arterial, Collector, and Residential. There is a State highway (SR 525) which is considered an arterial street that bisects the City: this surface is maintained by WSDOT. The entire pavement system within the City of Mukilteo is composed of approximately 60.9 miles of paved surface and is divided into 406 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

Functional Classification	Centerline Miles
Arterial [excluding SR 525 and SR 526]	1.3
Urban Minor Arterial	4.9
Collector	6.3
Residential	48.5
Total	**60.9**

As a general rule, the City would perform rehabilitative surface treatments on streets rated down to a PCI of about 60 using chip seals. However, below that score asphalt replacement will generally be needed. Streets in the 60-80 range may have some cracks but generally, more than anything else, will be suffering from oxidation of the top surface. This leads to hairline crack formation which allows the entrance of water into and below the pavement, leading to a shortened pavement life. Chip sealing restores the oxidized surface and seals the pavement to prevent water entrance.

By chip sealing, the expensive street resurfacing cycle is broken where pavement is allowed to degrade to the point that it must be ground off and replaced with new asphalt. Based on the 2007 Pavement Management Program, the common scenario is that a newly paved street, after 7-10 years, will start developing cracks and be crack sealed. Then over the next 7-9 years it would further deteriorate and finally have to be replaced. Chip sealing replaces this cycle with pavement refreshment about 7-10 years into the life, a second chip seal around 14-16 years and a third one around 24-25 years. Sometime after 30 years the pavement can be ground and, possibly, the chip sealing process started over again.

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2010 to 2014.

Table 3
Street Preservation Planned to Actual

Year	2014	2013	2012	2011	2010
Planned	$ 317,000	$ 510,420	$ 200,000	$ 433,000	$ 297,000
Actual	16,200	495,130	333,419	354,860	295,946
Variance	$ 300,800	$ 15,290	$ (133,419)	$ 78,140	$ 1,054
	94.9%	3.0%	-66.7%	18.0%	0.4%

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund
For the Year Ended December 31, 2014

	General Fund			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Property taxes	$ 4,861,120	$ 4,861,120	$ 4,842,788	$ (18,332)
Sales taxes	2,542,500	2,542,500	2,732,978	190,478
Other taxes and assessments	3,025,500	3,025,500	2,819,744	(205,756)
Licenses and permits	1,357,040	1,357,040	1,326,124	(30,916)
Intergovernmental	366,835	374,835	396,843	22,008
Charges for services	550,300	565,800	638,882	73,082
Fines and forfeitures	182,100	182,100	145,248	(36,852)
Rents and leases	183,800	183,800	212,200	28,400
Interest earnings	8,770	8,770	19,400	10,630
Contributions and donations	2,200	2,200	12,472	10,272
Miscellaneous revenues	17,500	17,500	230,249	212,749
Total revenues	13,097,665	13,121,165	13,376,928	255,763
EXPENDITURES				
General government	3,109,820	3,109,820	3,116,604	6,784
Public safety	7,110,150	7,487,337	7,082,588	(404,749)
Transportation	130,000	357,000	354,460	(2,540)
Natural and economic environment	1,259,715	1,280,215	1,189,824	(90,391)
Culture and recreation	714,835	714,835	660,678	(54,157)
Debt service:				
Principal	-	-	-	-
Interest and other debt costs	-	-	5	5
Capital outlay:				
Capital outlay	-	-	79,414	79,414
Total expenditures	12,324,520	12,949,207	12,483,573	(465,634)
Excess (deficiency) of revenues over expenditures	773,145	171,958	893,355	721,397
OTHER FINANCING SOURCES (USES)				
Transfers in	88,750	88,000	88,000	-
Transfers out	(840,500)	(950,746)	(912,089)	38,657
Total other financing sources (uses)	(751,750)	(862,746)	(824,089)	38,657
Net change in fund balances	21,395	(690,788)	69,266	760,054
Fund balances - beginning	5,477,574	5,477,574	5,477,574	-
Prior period adjustment	-	-	(113,139)	(113,139)
Restated fund balances - beginning	5,477,574	5,477,574	5,364,435	(113,139)
Fund balances - ending	$ 5,498,969	$ 4,786,786	$ 5,433,701	$ 646,915

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, 2014

	Recreation & Cultural Services			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Licenses and permits	$ 600	$ 600	$ 525	$ (75)
Charges for services	102,150	152,150	145,049	(7,101)
Rents and leases	320,080	320,080	1,180	(318,900)
Interest earnings	300	300	421,996	421,696
Contributions and donations	4,900	4,900	6,950	2,050
Total revenues	428,030	478,030	575,700	97,670
EXPENDITURES				
Culture and recreation	777,260	827,260	808,890	(18,370)
Total expenditures	777,260	827,260	808,890	(18,370)
Excess (deficiency) of revenues over expenditures	(349,230)	(349,230)	(233,190)	116,040
OTHER FINANCING SOURCES (USES)				
Transfers in	220,000	220,000	233,190	13,190
Transfers out	-	-	-	-
Total other financing sources (uses)	220,000	220,000	233,190	13,190
Net change in fund balances	(129,230)	(129,230)	-	129,230
Fund balances - beginning	-	-	-	-
Prior period adjustment	-	-	-	-
Restated fund balances - beginning	-	-	-	-
Fund balances - ending	$ (129,230)	$ (129,230)	$ -	$ 129,230

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, 2014

	Emergency Medical Services			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Property taxes	$ 1,605,088	$ 1,605,088	$ 1,712,708	$ 107,620
Intergovernmental	-	-	11,905	11,905
Charges for services	220,000	220,000	269,679	49,679
Interest earnings	100	100	316	216
Miscellaneous revenues	700	700	-	(700)
Total revenues	1,825,888	1,825,888	1,994,608	168,720
EXPENDITURES				
Public safety	1,931,800	2,087,482	2,060,554	(26,928)
Capital outlay:				
Capital outlay	-	-	6,618	6,618
Total expenditures	1,931,800	2,087,482	2,067,172	(20,310)
Excess (deficiency) of revenues over expenditures	(105,912)	(261,594)	(72,564)	189,030
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	33,899	(66,101)
Transfers out	-	-	-	-
Total other financing sources (uses)	100,000	100,000	33,899	(66,101)
Net change in fund balances	(5,912)	(161,594)	(38,665)	122,929
Fund balances - beginning	130,151	130,151	130,151	-
Prior period adjustment	-	-	(91,486)	(91,486)
Restated fund balances - beginning	130,151	130,151	38,665	(91,486)
Fund balances - ending	$ 124,239	$ (31,443)	$ -	$ 31,443

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, 2014	$ -	$ 860,730	$ 860,730	0.00%	$ -	0.00%
December 31, 2013	-	585,340	585,340	0.00%	-	0.00%
December 31, 2012	-	609,708	609,708	0.00%	-	0.00%

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov