Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Mukilteo

For the period January 1, 2021 through December 31, 2021

Published July 17, 2023

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Office of the Washington State Auditor
Pat McCarthy

July 17, 2023

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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January 1, 2021 through December 31, 2021

2021-001 The City's internal controls over accounting of capital assets were inadequate for ensuring accurate financial reporting.

Background

State and federal agencies, the City Council, and the public rely on information included in the financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the City's financial reporting is reliable and the financial statements and related notes are accurate. The City prepares its financial statements in accordance with generally accepted accounting principles.

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the City's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate the material weakness as a finding.

Description of Condition

Capital project expenditures are recorded as construction in progress on the financial statements until they are complete. At that point, governments reclassify the expenditures into the appropriate subcategories of capital assets and start recording depreciation expense. The *Budgeting, Accounting and Reporting System* (BARS) Manual states that governments should reclassify constructed assets from construction in progress and begin recording depreciation when they are substantially completed or otherwise available for use. Additionally, when governments use restricted funds, such as enterprise funds, to complete or procure an asset, the government should record the asset in the respective fund to assist in planning for its future replacement.

Our audit found the City's internal controls were inadequate for identifying and accurately reclassifying all substantially completed constructed assets at year-end. The identified control deficiency represents a material weakness.

Cause of Condition

The City has an internal control in place where staff in the finance and public works departments communicate to discuss the status of capital projects reported as construction in progress. Although this communication took place, the City had significant turnover in these departments, resulting in the loss of institutional knowledge. Since staff from both departments were not entirely familiar with all the City's ongoing capital projects, they did not effectively communicate each one's status throughout the year.

Effect of Condition

The audit identified four capital projects with a total value of $21.7 million that were substantially complete at year-end. These capital projects improperly remained in the construction in progress balance. This error also caused depreciation expense to be understated by $76,403.

When correcting this error, the City reclassified one of the four projects out of the Surface Water Fund, a restricted purpose fund, to a governmental fund because it was mostly paid for with federal and state grants. This caused a misstatement of transfers totaling $2.3 million. In addition, the City was unable to provide documentation demonstrating the transfer of the asset out of the restricted purpose fund did not constitute one fund benefitting at the expense of another.

The City corrected these errors, along with other less significant errors that we identified, in the final financial statements.

Recommendation

We recommend the City ensure its internal controls help staff identify substantially completed capital projects so they can properly classify them on the financial statements. Further, we recommend the City consider the type of project and the funding sources used to ensure one fund does not benefit at the expense of another.

City's Response

The City of Mukilteo appreciates the opportunity to respond to the Washington State Auditor's Office's (SAO) conclusions. We thank the audit staff for their open and ongoing communication and support throughout the audit. The City is committed to establishing and following effective internal controls and welcomes all opportunities to improve for the benefit of the City's residents.

The reclassifications in question are a routine accounting transaction into the General Journal whenever a Construction in Process project is finished. When complete, the full cost of a project is removed from Construction in Process and added to the City's Capital Asset Schedule and depreciation commences according to the expected lifetime. For 2021, the reclassification became an issue because of a difference in the definition of a 'completed' project. The City maintained that each project was not yet final, and more invoices were expected. This would increase the total cost of the asset prior to its eventual (2022) reclassification.

SAO defined the criteria as 'substantially complete' and not a more resolute 'final completion.' Inherent in public construction is extended lag time after completion of physical construction for regulatory approvals, invoicing, and payment which can add months to a project's timeline and more cost. The Harbour Reach Extension Project was part of Construction in Process in past audits. The term 'substantially complete' is not a point where everyone would agree to a single definition as several factors can be considered. However, the SAO backed up their position with clear examples. The City's Public Works Department had filed their substantial complete on report to the State. In addition, the roadway had been placed into service in 2021. When the public can drive down the road, it's a compelling example of 'substantial completion.' Finance staff concurs with the SAO's approach and thought process in this analysis. The assets have been reclassed into Capital Assets in 2021 and appropriate depreciation has been expensed.

The Finance and Public Works Staff have extensively examined and discussed the SAO's point of view and can agree with their position. In the future, Staff will use the SAO's guidance and examples in our definition of complete and will be more assertive to close out projects quicker and reclassify them to Capital Assets with depreciation expense recognized.

SAO has articulated the proper reclassification into Capital Assets also includes determining the proper Fund. Most City assets reside in a governmental fund, but a 2021 asset in question was partially funded by a restricted fund (Storm Water). Additional scrutiny of the capital assets funding will be included in the future when determining the appropriate fund reclassification. The inherent purpose of this is to prevent one fund from improperly benefiting another and to determine the long-term costs of the proprietary fund more accurately. Staff takes this recommendation to heart and will strive to follow this guidance in the future.

Auditor's Remarks

We appreciate the City's commitment to resolving the issues and improving current year processes. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

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

Budgeting, Accounting and Reporting System (BARS) Manual, 3.3.10, Capital Asset Accounting.

Budgeting, Accounting and Reporting System (BARS) Manual, 3.9.2, Property Transfers.

RCW 43.09.210, Local government accounting – Separate accounts for each fund or activity – Exemptions.

CITY OF MUKILTEO

Finance Department

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

City of Mukilteo
January 1, 2021 through December 31, 2021

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

Audit Period:	**Report Reference No.:**	**Finding Ref. No.:**	**ALN(s):**
2020	1029997	2020-001	21.019

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
COVID-19 – Coronavirus Relief Fund – U.S. Department of the Treasury	Washington State Department of Commerce

Finding Caption:

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

Background:

The City established 14 eligibility criteria for local businesses to receive assistance payments, but it did not have a process for verifying that businesses met all these criteria.

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

Status of Corrective Action: (check one)

☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

While this finding is accurate, it is also temporary. The COVID-19 program was an urgent response to the pandemic and its economic consequences to society as a while. Not a single person or institution was unaffected by its ruinous effects. The City's program to assist local business was not administered properly, but the program was a one-time endeavor. It will not be repeated.

However, the learning from this finding is a practical lesson to always follow the protocols associated with the funds. The City had the right intention to assist local businesses, but it didn't follow all of the required procedures. Management has taken this lesson to heart and plans to always and fully follow all rules and regulations that govern any funding program such as this in the future. Awareness is a big factor in being able to comply with the regulations and the City's Administration is now better informed on meeting its requirements.

INDEPENDENT AUDITOR'S REPORT

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

City of Mukilteo
January 1, 2021 through December 31, 2021

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 10, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

CITY'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

July 10, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Mukilteo
January 1, 2021 through December 31, 2021

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

July 10, 2023

FINANCIAL SECTION

City of Mukilteo
January 1, 2021 through December 31, 2021

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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, 2021. We discuss and analyze the City's financial performance within the context of the accompanying financial statements, note disclosures, and required supplemental information following this section.

FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows exceeded its liabilities and deferred inflows by $233,589,702 (net position) for the calendar year reported.
- Total net position is comprised of the following:
  1. Net investment in capital assets of $207,539,617 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  2. $12,251,966 of net position is restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
  3. Unrestricted net position of $13,798,119 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 $12,890,534 this year. This compares to the prior year ending fund balance of $11,811,318 showing an increase of $1,079,216 or 9.1% during the current year. This maintains a stable fund balance.
- At the end of the current calendar year, unassigned fund balance for the General Fund was $2,455,243 or 12.5% of total General Fund expenditures.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

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

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

Fiduciary Fund type represents funds held in trust; this includes a custodial fund.

NOTES TO THE FINANCIAL STATEMENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF NET POSITION

The following table provides a summary of the City's net position for the years ended December 31, 2021 and 2020:

City of Mukilteo

Summary of Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current assets	$ 20,754,294	$ 15,966,952	$ 6,301,805	$ 6,199,775	$ 27,056,099	$ 22,166,727
Capital assets	206,439,216	199,783,513	7,425,401	7,149,115	213,864,617	206,932,629
Other assets	13,380,682	4,358,754	730,320	-	14,111,002	4,358,754
Total assets	240,574,192	220,109,220	14,457,526	13,348,890	255,031,718	233,458,110
Deferred outflows	1,210,431	1,206,435	96,026	104,260	1,306,457	1,310,695
Current liabilities	6,378,610	2,978,873	446,015	384,548	6,824,625	3,363,421
Noncurrent liabilities	6,764,847	9,632,273	110,901	434,650	6,875,748	10,066,924
Total liabilities	13,143,457	12,611,147	556,916	819,198	13,700,373	13,430,345
Deferred inflows	8,278,130	1,105,192	769,970	120,313	9,048,100	1,225,505
Net position:						
Investment in capital assets	200,114,216	192,710,752	7,425,401	7,149,115	207,539,617	199,859,867
Restricted	12,194,415	7,310,267	57,551	-	12,251,966	7,310,267
Unrestricted	8,054,405	7,578,296	5,743,715	5,364,524	13,798,119	12,942,820
Total net position	$ 220,363,035	$ 207,599,316	$ 13,226,667	$ 12,513,639	$ 233,589,702	$ 220,112,954

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 3.25 to 1 at December 31, 2021. The current ratio for the business-type activities at December 31, 2021 is 14.13 to 1. For the City overall, the current ratio is 3.96 to 1. These ratios are strong.

The City reported positive balances in net position for both governmental and business-type activities. Net position increased by $12,763,719 for governmental activities and increased by $713,028 for business-type activities. The City's overall financial position increased during calendar year 2021 by $13,476,747.

The City reported that 90.8% of the governmental activities' net position is tied up in capital, such as land, building, and infrastructure. The City uses these capital assets to provide services to its citizens. In business-type activities, the City reports 56.1% of its net position as its net capital investment. Capital assets in the business-type activities provide surface water services and generate revenues for this fund. Overall, 88.8% of the City's total net position is included in net investment in capital assets.

CHANGE IN NET POSITION

The following table provides a summary of the City's changes in net position for the years ended December 31, 2021 and 2020:

City of Mukilteo
Summary of Changes in Net Position

	Governmental Activities		Business Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues						
Program revenues:						
Charges for services	$ 5,497,179	$ 4,899,756	$ 4,007,795	$ 3,917,181	$ 9,504,975	$ 8,816,937
Operating grants & contributions	1,942,918	3,293,621	1,810	5,810	1,944,728	3,299,431
Capital grants & contributions	6,420,699	9,914,631	1,258,194	1,706,739	7,678,893	11,621,370
General revenues:						
Property taxes	7,644,697	7,579,452	-	-	7,644,697	7,579,452
Other taxes	9,050,845	8,386,808	-	-	9,050,845	8,386,808
Miscellaneous revenue	143,274	102,218	(2,274,133)	(568)	(2,130,859)	101,650
Investment earnings	52,549	127,251	13,818	-	66,367	127,251
Total revenues	30,752,161	34,303,738	3,007,484	5,629,162	33,759,645	39,932,900
Program expenses:						
General government	4,418,989	4,603,182	-	-	4,418,989	4,603,182
Public safety	9,927,999	11,476,002	-	-	9,927,999	11,476,002
Transportation	2,469,341	2,181,363	-	-	2,469,341	2,181,363
Natural & economic environment	999,527	1,054,700	-	-	999,527	1,054,700
Social services	27,884	27,715	-	-	27,884	27,715
Culture and recreation	2,300,372	2,666,221	-	-	2,300,372	2,666,221
Interest on long term debt	167,414	201,380	-	-	167,414	201,380
Surface water management	-	-	2,245,506	2,283,806	2,245,506	2,283,806
Total expenses	20,311,524	22,210,561	2,245,506	2,283,806	22,557,030	24,494,368
Changes in net position	10,440,636	12,093,176	761,978	3,345,356	11,202,614	15,438,532
Transfers	2,323,083	95,925	(48,950)	(95,925)	2,274,133	-
Total changes in net position	12,763,719	12,189,101	713,028	3,249,431	13,476,747	15,438,532
Net position - beginning	207,599,316	195,410,215	12,513,639	9,264,208	220,112,955	204,674,422
Net position - ending	$ 220,363,035	$ 207,599,316	$ 13,226,667	$ 12,513,639	$ 233,589,702	$ 220,112,954

GOVERNMENTAL ACTIVITIES ANALYSIS

The reasons for the changes in revenue are explained in more detail in governmental fund discussion later in this document. From 2020 to 2021, assessed valuation for average properties increased by 5.3%. Sales taxes increased by $252,183 over 2020 or 7.3%. Despite the impacts of the COVID-19 pandemic on the economy, certain sectors like retail sales saw an increase in activity in 2021. The economy continues modest growth in the City as we have seen an increase in retail sales, and a resurgence in sales tax generated by new construction activities in the City.

Taxes make up 54.3% of the total governmental activities revenue as compared to 46.5% in 2020. The increase for taxes is due to decreases in other revenue sources, primarily transportation related capital grants.

GOVERNMENTAL FUNCTIONAL EXPENSES

Total cost of services

Total cost of governmental services decreased by $1,899,037 due to the increase in pension asset balances, and the net cost of services increased by $2,348,175, due to decreased transportation capital grants received in 2021 versus 2020.

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

City of Mukilteo Cost of Services

	Governmental Activities			
	Total Cost of Services		Net Cost of Services	
	2021	2020	2021	2020
General government	$ 4,418,989	$ 4,603,182	$ 436,535	$ (368,297)
Public safety	9,927,999	11,476,002	8,112,129	9,877,645
Transportation	2,469,341	2,181,363	(4,474,438)	(8,399,187)
Natural & economic environment	999,527	1,054,700	989,260	1,054,700
Social services	27,884	27,715	27,884	27,715
Culture and recreation	2,300,372	2,666,221	1,191,945	1,708,598
Interest on long term debt	167,414	201,380	167,414	201,380
Total	$ 20,311,524	$ 22,210,561	$ 6,450,728	$ 4,102,553

BUSINESS-TYPE ACTIVITIES ANALYSIS

The City maintains a single enterprise fund for surface water activities. In this fiscal year, operating revenues were $4,009,605 and operating expenses were $2,294,335, resulting in an operating gain of $1,715,270.

Revenues from charges for services increased $90,614 or 2.3% greater in 2021 than 2020. This includes a rate increase in line with a multi-year rate increase plan that was adopted by the City Council in 2015.

Operations and maintenance costs decreased $38,090 or 1.9% from the 2020 amount. Depreciation expense decreased $344 or 0.1% in 2021 as compared to 2020. In this year, the Surface Water Fund transferred $48,950 of resources to other funds. At December 31, 2021, net position totaled $13,226,667.

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 $12,890,534 as compared to the amount of $11,811,318 at December 31, 2020.

The restricted amount at December 31, 2021 was $6,718,170 relating primarily to capital improvements funded by REET revenues.

The committed amount of $1,247,779 is primarily for a contingency reserve of $1 million.

The assigned fund balance of $2,637,703 is set aside for operating reserves in the General Fund in accordance with the City's Fund Balance Reserve Policy which requires an amount equal to two months of operating expenditures (16.67%) to be maintained.

The General Fund – The General Fund is the City's primary operating fund and the largest funding source for day-to-day service delivery. The General Fund's fund balance increased by $584,194 or 7.84% in 2021. In calendar year 2020, the fund balance increased $1,450,031 or 24.2%.

Total revenues decreased $842,344 or 4.0% below the 2020 amount, which is largely related to federal support received in 2020 related to the COVID-19 pandemic.

Total licenses and permits were up $228,556 or 13.9% above the 2020 amount, due to an increase in the number of commercial construction permits.

In 2021, total expenditures increased $442,055 or 2.3% above the 2020 amount, due to an increase in public safety expenditures.

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

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

The Capital Projects Fund is primarily funded through street and park mitigation fees, real estate excise tax, and intergovernmental grants. Charges for Services in the Capital Projects Fund include park mitigation and street mitigation fees. Mitigation fees increased slightly from $132,970 to $135,679 from 2020 to 2021.

Other capital projects are financed mainly through revenue the City receives from excise taxes levied on the sale of real estate within the City and may only be used to fund capital projects. During 2021, the City recognized real estate excise tax collected in the amount of $2,035,153 as compared to $1,644,603 in 2020. Real estate activity improved overall in 2021, despite the on-going pandemic.

In 2021 capital outlay projects totaled $6,391,113 while non-capital maintenance and other costs totaled $432,614. Ending fund balance in 2021 was $4,857,634. Capital outlay increased from 2021 primarily related to the Harbour Pointe Boulevard SW Widening and Harbour Reach Drive Corridor Extension projects and contributions to the pavement preservation project.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund revenue budget was not amended in 2021. In total, the City realized 104.31% of estimated revenues.

Total tax revenue was $745,211 higher than the budget, primarily due to sales tax revenue which exceeded budget by approximately $885,000.

Overall, the General Fund expenditure budget was underspent by $220,230. This was the result of holding budgeted positions vacant due to the fiscal uncertainty surrounding the economic impact of the COVID-19 pandemic, as well as other general expenditure reductions given this budget uncertainty.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's net investment in capital assets for governmental and business-type activities as of December 31, 2021 was a 2.6% increase for governmental activities and a 26.4% increase for business-type activities. The overall increase was 3.9% for the City as a whole. See the notes to the financial statements for additional information about changes in capital assets during the calendar year and outstanding at the end of the year.

The following table provides a summary of capital asset activity for the years ended December 31, 2021 and 2020.

City of Mukilteo Capital Assets at Year-End

(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Nondepreciable assets:						
Land	$ 43,725,242	$ 43,724,327	$ 150,000	$ 150,000	$ 43,875,242	$ 43,874,327
Right of way	10,989,210	10,988,766	53,403	53,172	11,042,613	11,041,938
Art collections	287,624	287,624	-	-	287,624	287,624
Infrastructure - streets	120,733,861	103,852,485	-	-	120,733,861	103,852,485
Construction in progress	1,780,840	12,832,065	323,736	2,502,696	2,104,576	15,334,761
Total nondepreciable assets	177,516,777	171,685,267	527,139	2,705,867	178,043,916	174,391,135
Depreciable assets:						
Buildings	18,328,971	18,835,353	-	-	18,328,971	18,835,353
Other improvements	4,997,172	2,851,462	5,555,649	3,253,754	10,552,821	6,105,216
Machinery and equipment	2,454,774	3,080,174	1,342,613	1,189,493	3,797,387	4,269,668
Infrastructure	3,141,522	3,331,257	-	-	3,141,522	3,331,257
Total depreciable assets	28,922,438	28,098,246	6,898,262	4,443,248	35,820,701	32,541,494
Book value - all assets	$ 206,439,216	$ 199,783,513	$ 7,425,401	$ 7,149,115	$ 213,864,617	$ 206,932,629

At December 31, 2021, the depreciable capital assets for governmental activities were 54.5% depreciated, up from 54.3% as of December 31, 2020, reflecting the additional depreciation recognized in 2021.

Governmental Activities

The increase to the construction in progress consisted primarily of:

- Japanese Gulch Daylighting
- 76th Pl SW & SR 525 Pedestrian Improvements
- Pavement Preservation projects

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

2020 Overall Pavement Condition Assessment against City Goal				
Condition	**# Miles**	**% of Total**	**Cumulative**	**Within Goal**
Excellent	10.9	17.5%	17.5%	YES
Very Good	46.4	65.3%	82.8%	YES
Good	9.1	14.6%	97.4%	YES
Poor	1.4	2.3%	99.7%	NO
Very Poor	0.2	0.3%	100.0%	NO

Significant differences exist between the amount estimated necessary for maintaining infrastructure assets at target condition levels and the actual amount of expense incurred for this purpose during the current fiscal period. The 2017-2022 Pavement Preservation Plan recommends at least $900,000 be spent annually on pavement preservation and restoration. The 2021 Budget authorized $729,476 for general pavement preservation and an additional $1,714,876 for specific Park and other projects. Despite not spending the budgeted amount, the City's streets remain in overall excellent condition with only 1.6 miles (2.6% of total) rated as less than "good" condition. Decisions have been made to save funds for future, larger projects. In addition, the City is actively leveraging Grant matching opportunities.

A new Pavement Condition Assessment will be conducted in 2022.

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

LONG-TERM DEBT

The following table reports outstanding long-term obligations at both December 31, 2021 and 2020.

City of Mukilteo Outstanding Obligations

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
General obligation bonds	$ 6,325,000	$ 7,035,000	$ -	$ -	$ 6,325,000	$ 7,035,000
Compensated absences	1,805,759	1,824,625	130,315	155,970	1,936,074	1,980,595
Pension obligation	295,447	1,229,630	71,827	290,572	367,274	1,520,202
Other post-employment benefits	-	392,132	-	-	-	392,132
Total	$ 8,426,206	$ 10,481,387	$ 202,142	$ 446,542	$ 8,628,348	$ 10,927,929

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

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

2022 Budget Overview

Adopted budgeted revenues and transfers in for all funds total $36.2 million. Adopted budgeted expenditures and transfers out total $40.0 million.

Exceeding the two-month minimum fund balance set by policy, the adopted budget includes an estimated ending balance in the General Fund of $4.9 million which equals 31.3% of 2022 General Fund expenditures and transfers out.

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

Requests for Information

We designed this financial report to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Finance Director: City of Mukilteo, 11930 Cyrus Way, Mukilteo, WA 98275, 425-263-8033.

Statement of Net Position

December 31, 2021

Assets	Governmental Activities	Business-Type Activities	Total
Current assets:			
Cash and cash equivalents	$ 17,019,974	$ 5,335,390	$ 22,355,365
Receivables (net of allowances):			
Taxes	1,490,459	-	1,490,459
Customer accounts	1,047,508	631,938	1,679,447
Grants	1,096,192	239,114	1,335,306
Internal balances	(86,590)	86,590	-
Prepaids	186,751	8,772	195,523
Total current assets	20,754,294	6,301,805	27,056,099
Noncurrent assets:			
Net pension asset	12,545,131	730,320	13,275,451
Investment in joint venture	835,551	-	835,551
Capital assets not being depreciated:			
Land	43,725,242	150,000	43,875,242
Right of way easements	10,989,210	53,403	11,042,613
Art collections	287,624	-	287,624
Infrastructure - streets	120,733,861	-	120,733,861
Construction in progress	1,780,840	323,736	2,104,576
Capital assets, net of accumulated depreciation:			
Buildings	18,328,971	-	18,328,971
Other improvements	4,997,172	5,555,649	10,552,821
Machinery and equipment	2,454,774	1,342,613	3,797,387
Infrastructure	3,141,522	-	3,141,522
Total noncurrent assets	219,819,898	8,155,721	227,975,619
Total assets	240,574,192	14,457,526	255,031,718
Deferred outflows of resources:			
Pension obligations	1,210,431	96,026	1,306,457
Total deferred outflows of resources	1,210,431	96,026	1,306,457
Liabilities			
Current liabilities:			
Accounts payable	544,941	290,668	835,609
Accrued wages	564,548	64,106	628,654
Deposits payable	551,342	-	551,342
Unearned revenue	3,043,771	-	3,043,771
Accrued interest payable	12,650	-	12,650
Compensated absences - current	931,359	91,241	1,022,600
Bonds - current	730,000	-	730,000
Total current liabilities	6,378,610	446,015	6,824,625
Noncurrent liabilities:			
Compensated absences	874,400	39,073	913,473
Net pension liabilities	295,447	71,827	367,274
Bonds	5,595,000	-	5,595,000
Total noncurrent liabilities	6,764,847	110,901	6,875,748
Total liabilities	13,143,457	556,916	13,700,373
Deferred Inflows of Resources			
Pension obligations	8,278,130	769,970	9,048,100
Total deferred inflows of resources	8,278,130	769,970	9,048,100
Net Position			
Net investment in capital assets	200,114,216	7,425,401	207,539,617
Restricted for:			
Capital	6,403,186	-	6,403,186
Pension asset	5,476,245	57,551	5,533,796
Other purposes	314,984	-	314,984
Unrestricted	8,054,405	5,743,715	13,798,119
Total net position	$ 220,363,035	$ 13,226,667	$ 233,589,702

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

Statement of Activities
For the Year Ended December 31, 2021

		Program Revenue			Net (Expenses) Revenue and Changes in Net Position Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Net (Expense) Revenue
Primary government:							
Governmental activities:							
General government	$ 4,418,989	$ 3,265,826	$ 716,627	$ -	$ (436,535)	$ -	$ (436,535)
Public safety	9,927,999	1,023,027	792,842	-	(8,112,129)	-	(8,112,129)
Transportation	2,469,341	138,863	440,034	6,364,882	4,474,438	-	4,474,438
Natural & economic environment	999,527	8,574	1,693	-	(989,260)	-	(989,260)
Social services	27,884	-	-	-	(27,884)	-	(27,884)
Culture and recreation	2,300,372	1,060,889	(8,278)	55,817	(1,191,945)	-	(1,191,945)
Interest on long-term debt	167,414	-	-	-	(167,414)	-	(167,414)
Total governmental activities	20,311,524	5,497,179	1,942,918	6,420,699	(6,450,728)	-	(6,450,728)
Business-type activities:							
Surface water	2,245,506	4,007,795	1,810	1,258,194	-	3,022,293	3,022,293
Total business-type activities	2,245,506	4,007,795	1,810	1,258,194	-	3,022,293	3,022,293
Total primary government	$ 22,557,030	$ 9,504,975	$ 1,944,728	$ 7,678,893	(6,450,728)	3,022,293	(3,428,435)

	Governmental Activities	Business-Type Activities	Net (Expense) Revenue
General revenues:			
Taxes:			
Property taxes	7,644,697	-	7,644,697
Sales taxes	3,685,048	-	3,685,048
Utility taxes	2,489,122	-	2,489,122
Excise taxes	2,093,907	-	2,093,907
Other taxes	782,768	-	782,768
Interest and investment earnings	52,549	13,818	66,367
(Loss) on disposal of capital assets	(17,809)	(2,274,133)	(2,291,942)
Miscellaneous revenue	161,082	-	161,082
Transfers	2,323,083	(48,950)	2,274,133
Total general revenues & transfers	19,214,447	(2,309,265)	14,631,049
Change in net position	12,763,719	713,028	13,476,747
Net position - beginning	207,599,316	12,513,639	220,112,955
Net position - ending	$ 220,363,035	$ 13,226,667	$ 233,589,702

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

Balance Sheet
Governmental Funds
December 31, 2021

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 10,767,980	$ 4,100,667	$ -	$ 14,868,647
Prepaid expenses	158,161	9,332	-	167,493
Receivables (net of allowance):				
Taxes	1,318,213	172,246	-	1,490,459
Customers	1,035,043	12,465	-	1,047,508
Grants	35,713	1,034,094	-	1,069,806
Total assets	$ 13,315,111	$ 5,328,804	$ -	$ 18,643,914
LIABILITIES, DEFFERED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 324,328	$ 153,517	$ -	$ 477,845
Wages payable	555,041	-	-	555,041
Unearned revenue	3,043,771	-	-	3,043,771
Deposits & retainage payable	539,901	11,441	-	551,342
Interfund loan payable	-	-	-	-
Total liabilities	4,463,041	164,958	-	4,627,999
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - receivables	819,169	306,212	-	1,125,381
FUND BALANCES				
Nonspendable for:				
Prepaids	158,161	9,332	-	167,493
Restricted for:				
Public Safety	17,842	-	-	17,842
Transportation	1,219,031	4,918,305	-	6,137,336
Culture and recreation	71,000	265,850	-	336,850
Natural & economic development	226,142	-	-	226,142
General obligation debt	-	-	(0)	(0)
Committed for:				
General government	1,231,229	-	-	1,231,229
Public Safety	14,822	-	-	14,822
Culture and recreation	1,728	-	-	1,728
Natural & economic development	-	-	-	-
Assigned for:				
General government	2,637,703	-	-	2,637,703
Unassigned	2,455,243	(335,853)	-	2,119,390
Total fund balances	8,032,900	4,857,634	(0)	12,890,534
Total liabilities, deferred inflows of resources, and fund balances	$ 13,315,111	$ 5,328,804	$ (0)	$ 18,643,914

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2021

Amounts reported in the statement of net position are different because:		
Fund balances of governmental funds:		$ 12,890,534
Capital assets are not financial resources, and therefore not reported in the fund financial statements		
Capital assets net of depreciation		206,439,216
Other long-term assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Net pension assets	$ 12,545,131	
Investment in joint venture	835,551	
		13,380,682
Deferred outflows of resources for pensions and other postemployment benefit activity are not available to pay for current period expenditures and, therefore are not reported in governmental funds		1,210,431
Deferred inflows related to unearned revenue that are not available in the current period and, therefore, are not reported in the funds but are revenue for government wide reporting		1,125,381
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds		(8,438,856)
Deferred inflows in governmental funds is susceptible to full accrual and therefore not reported in the Statement of Activities. Other expenses are suspectible to full accrual and are reported in the Statement of Activities but not in the governmental funds.		(8,278,130)
Internal service funds are used by management to charge the cost of certain activities, such as equipment management and insurance to individual funds. Current assets and liablities, not included in capital asset and pension related balances above, are reported on the government-wide financial statements		2,120,368
The internal service fund chargeback to the enterprise fund is not reported in the governmental funds, but is reported on the government-wide financial statements.		(86,590)
Net position of governmental activities		$ 220,363,035

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, 2021

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Revenues				
Taxes	$ 14,621,149	$ 2,035,153	$ -	$ 16,656,302
Licenses and permits	1,874,654	-	-	1,874,654
Intergovernmental revenues	1,213,762	6,110,518	-	7,324,280
Charges for services	1,065,639	135,679	-	1,201,318
Fees and penalties	174,377	-	-	174,377
Miscellaneous	1,214,928	10,487	337	1,225,752
Total revenues	20,164,509	8,291,837	337	28,456,683
Expenditures				
Current:				
General government	4,479,062	-	-	4,479,062
Public safety	11,150,433	-	-	11,150,433
Transportation	1,299,333	432,614	-	1,731,948
Natural & economic environment	1,053,257	-	-	1,053,257
Social services	27,884	-	-	27,884
Culture and recreation	1,541,271	-	-	1,541,271
Capital outlay:				
General government	95,278	-	-	95,278
Public safety	-	-	-	-
Transportation	-	6,328,482	-	6,328,482
Social services	-	-	-	-
Culture and recreation	-	62,632	-	62,632
Debt service:				
Principal	-	-	710,000	710,000
Interest and other charges	-	-	168,834	168,834
Total expenditures	19,646,518	6,823,727	878,834	27,349,080
Excess (deficiency) of revenues over (under) expenditures	517,991	1,468,109	(878,497)	1,107,603
Other Financing Sources (Uses)				
Issuance of debt from refinancing	-	-		-
Deferred amount on refunding	-	-		-
Retirement of governmental loan	-	-		-
Transfers in	154,000	20,910	873,675	1,048,585
Insurance recovery	18,113	-	-	18,113
Transfers out	(105,909)	(989,175)	-	(1,095,085)
Capital contributions	-	-		-
Refunding bonds issued	-	-		-
Premium on bonds issued	-	-		-
Payment to refunding escrow agent	-	-		-
Total other financing sources and uses	66,203	(968,266)	873,675	(28,387)
Net change in fund balances	584,194	499,844	(4,821)	1,079,216
Fund balances - beginning	7,448,706	4,357,790	4,821	11,811,318
Close fund 114 to 001 - JE 26184	-			
Prior period adjustment - Note 17	-	-	-	-
Fund balances - ending	$ 8,032,900	$ 4,857,634	$ (0)	$ 12,890,534

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2021

Amounts reported in the statement of activities are different because:		
Net change in fund balances - total governmental funds		$ 1,079,216
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	$ 6,504,362	
Depreciation expense	(1,888,866)	
		4,615,496
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Increases in deferred inflows	1,012,664	
Increase in intergovernmental revenue-pension special funding situation	206,313	
Decrease in joint venture equity interest	(82,734)	
		1,136,243
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Decreases in governmental fund bonds payable		710,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Decreases in governmental fund compensated absences payable	21,213	
Decreases in governmental fund interest payable	1,420	
Increase in internal balances	(48,829)	
Decrease in pension expense	2,994,059	
		2,967,863
Loss on transfer of capital asset		2,274,133
The net revenue of certain activities of internal service funds is reported on the statement of activities		(19,231)
Change in net position - governmental activities		$ 12,763,719

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

Statement of Net Position
Proprietary Funds
December 31, 2021

	Surface Water Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents	$ 5,335,390	$ 2,151,327
Receivables (net of allowances):		
Customers	631,938	-
Grants receivable	239,114	26,386
Prepaid expenses	8,772	19,258
Total current assets	6,215,215	2,196,970
Noncurrent assets:		
Net pension asset	730,320	162,070
Capital assets not being depreciated		
Land	150,000	-
Right of way easements	53,403	-
Construction in progress	323,736	-
Capital assets net of accumulated depreciation:		
Buildings and structures	-	6,166
Other improvements	5,555,649	224,922
Machinery and equipment	1,342,613	2,523,114
Total noncurrent assets	8,155,721	2,916,271
Total assets	14,370,936	5,113,242
Deferred Outflows of Resources		
Pension obligations	96,026	22,190
Total deferred outflows	96,026	22,190
Liabilities		
Current liabilities:		
Accounts payable	290,668	67,096
Wages payable	64,106	9,507
Compensated absences - current portion	91,241	17,498
Total current liabilities	446,015	94,100
Noncurrent liabilities:		
Compensated absences	39,073	7,204
Net pension liabilities	71,827	18,712
Total noncurrent liabilities	110,901	25,916
Total liabilities	556,916	120,016
Deferred Inflows of Resources		
Pension obligations	769,970	172,687
Total deferred inflows	769,970	172,687
Net Position		
Investment in capital assets	7,425,401	2,754,201
Restricted - pension asset	57,551	12,771
Unrestricted	5,657,125	2,075,755
Total net position	$ 13,140,077	$ 4,842,728
The net effect of activities allocated from internal service funds is presented as an internal balance on the statement of net position	86,590	
Adjusted total net position	$ 13,226,667	

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

CITY OF MUKILTEO

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Surface Water Fund	Internal Service Funds
Operating Revenues		
Intergovernmental revenues	$ 1,810	$ 16,371
Charges for services	4,007,795	1,078,750
Total operating revenues	4,009,605	1,095,121
Operating Expenses		
Depreciation	331,054	475,817
Salaries and wages	959,777	201,781
Personnel benefits	144,110	48,800
Supplies	104,336	67,739
Services	755,058	405,664
Total operating expenses	2,294,335	1,199,801
Operating income (loss)	1,715,270	(104,679)
Nonoperating Revenues (Expenses)		
Intergovernmental capital grants	1,258,194	-
Interest revenue	13,818	4,713
Gain (loss) on disposal of capital assets	(2,274,133)	(17,809)
Donations and contributions	-	3,094
Total nonoperating revenues (expenses)	(1,002,121)	(10,002)
Income (loss) before transfers	713,149	(114,681)
Transfers out	(48,950)	-
Transfers in	-	95,450
Change in net position	664,199	(19,231)
Total Net position - beginning	12,475,878	4,861,959
Total Net position - ending	$ 13,140,077	$ 4,842,728
Adjustment to reflect the consolidation of internal service funds related to enterprise funds	86,590	
Net position of business-type activities	$ 13,226,667	

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, 2021

	Surface Water Fund	Internal Service Funds
Cash Flows From Operating Activities:		
Cash received from customers and users	$ 3,975,557	$ 1,090,558
Cash received from grantor	1,810	420
Cash payments to employees and retirees	(1,404,510)	(310,469)
Cash payments to suppliers	(890,568)	(453,109)
Net cash provided (used) by operating activities	1,682,289	327,400
Cash Flows From Noncapital Financing Activities		
Non-operating miscellaneous revenue	-	3,094
Operating subsidies and transfers from other funds	-	95,450
Operating subsidies and transfers to other funds	(48,950)	-
Net cash provided (used) by noncapital financing activities	(48,950)	98,544
Cash Flows From Capital Financing Activities		
Proceeds from capital grants	1,747,801	4,945
Acquisition and construction of capital assets	(2,871,182)	(264,642)
Net cash provided (used) by capital financing activities	(1,123,381)	(259,696)
Cash Flows From Investing Activities		
Investment sales and income	13,818	4,713
Net cash provided (used) by investing activities	13,818	4,713
Net increase (decrease) in cash and cash equivalents	523,776	170,960
Cash and cash equivalents, January 1	4,811,614	1,980,367
Cash and cash equivalents, December 31	$ 5,335,390	$ 2,151,326
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 1,715,270	$ (104,679)
Adjustments to reconcile operating income (loss) to net cash provided (used) operating activities:		
Depreciation	331,054	475,817
(Increase) decrease in customer receivables	(18,934)	-
(Increase) decrease in grantor receivables	-	(4,143)
(Increase) decrease in deferred pension outflows	8,234	1,827
(Increase) decrease in prepaid expenses	(99)	999
Increase (decrease) in accounts payable and deposits	(31,259)	19,294
Increase (decrease) in employee and benefit liabilities	3,086	(570)
Increase (decrease) in compensated absences	(25,655)	2,346
Increase (decrease) in pension obligation	(949,065)	(210,613)
Increase (decrease) in deferred inflows	(13,304)	-
Increase (decrease) in pension inflows	662,961	147,122
Total adjustments	(32,981)	432,079
Net cash provided (used) by operating activities	$ 1,682,289	$ 327,400
Non-cash activities:		
Depreciation of capital assets	331,054	475,817
Total non-cash activities	$ 331,054	$ 475,817

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

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2021

	Custodial Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 45,120
Receivables (net of allowances):	
Taxes receivable	(8)
Prepaid tax distributions	-
Total assets	45,112
Liabilities	
Current liabilities:	
Accounts payable	13,217
Due to other governments	19,848
Total liabilities	33,065
Net Position	
Restricted for:	
Individuals, organizations, and other governments	12,047
Total net position	$ 12,047

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

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2021

	Custodial Fund
Additions	
Tax collections for other governments	$ 134,660
Total additions	134,660
Deductions	
Payment of taxes to other governments	136,149
Total operating expenses	136,149
Net increase (decrease) in fiduciary net position	(1,488)
Net position - beginning	13,535
Net position - ending	$ 12,047

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

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

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following enterprise fund:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

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

C. Measurement focus and basis of accounting

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

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

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

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

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

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

D. Budgetary information

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

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

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

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

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

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

1. Cash and Cash Equivalents (Note 3)
The City pools cash resources of its various funds with the Washington State Local Government Investment Pool and Snohomish County Investment Pool in order to facilitate the management of cash. The balance in the pooled cash accounts is available to meet current operating requirements.

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

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

2. Investments (Note 3)
It is the City's policy to invest all temporary cash surpluses. Investments for the government are reported at fair value (generally based on quoted market prices), except for the position in the Washington State Local Government Investment Pool, a qualified external investment pool reported at amortized cost, which approximates fair value. The change in the fair value of investments is recognized in the year in which the change occurred.

3. Receivables (Note 4)
Taxes receivable consist of taxes and related interest and penalties received after year end. Customer accounts receivable consist of amounts owed by private individuals or organizations for goods and services including amounts earned for which billings have not been prepared. Grants receivable consist of amounts due from grantors where the eligibility requirements have been met.

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

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

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

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

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

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

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

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

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

8. Pensions (Note 6)
   For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

9. Other post-employment benefits (OPEB) (Note 7)
   For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, and OPEB expense, the City used the alternative measurement valuation tool provided by Washington's Office of the State Actuary.

10. Long-Term Debt (Note 10)
   In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing uses.

11. Deferred Inflows and Outflows of Resources
   Deferred inflows are used to offset an increase in outstanding receivables for which the revenue is not yet available. See Note 1, section E 8 above, as well as Note 6, for deferred inflows and

outflows of resources related to pension activities. See Note 1, section E9 above, as well as Note 7, for deferred outflows of resources related to OPEB activities.

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

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

General Fund:

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

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

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

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

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

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

NOTE 3 - DEPOSITS AND INVESTMENTS

DEPOSITS

Cash on hand on December 31, 2021, was $2,412. The carrying amount of the City's deposits in the bank was $22,398,073, and $45,120 of that amount was custodial fund deposit. Cash and cash equivalents on the Statement of Net Position include the non-custodial portion of bank deposits, $22,352,953 and petty cash of $2,412, for a total of $22,355,365.

Custodial Credit Risk

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

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

At December 31, 2021, all of the City's deposits with financial institutions were insured or collateralized. The City's deposits in financial institutions are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

INVESTMENTS

Interest Rate Risk

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

At December 31, 2021 the City had the following investments:

		Investment Maturities	
Investment Type	Fair Value	Less than 1 year	1-5 years
U.S. Government Agency Securities	$ -	$ -	$ -
Snohomish County Local Investment Pool	4,989,325	4,989,325	-
State of Washington Local Government Investment Pool	56	56	-
TOTAL	$ 4,989,381	$ 4,989,381	$ -

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

Credit Risk

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

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

Concentration of Credit Risk

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

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

Investments in Local Government Investment Pool (LGIP)

The City is a participant in the Washington Local Government Investment Pool (LGIP) was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State

Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee.

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

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

Investments in Snohomish County Investment Pool

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

Investments Measured at Fair Value

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

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

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

As of December 31, 2021, the City had the following investments measured at fair value:

		Fair Value Measurement Using		
	Totals as of 12/31/2021	**Level 1**	**Level 2**	**Level 3**
Investments by fair market value				
Snohomish County Local Investment Pool	$ 4,989,325		$ 4,989,325	$ -
Total investments measured at fair market value	$ 4,989,325		$ 4,989,325	
Investments measured at amortized cost				
State of Washington Local Government Investment Pool	56			
Total investments measured at amortized cost	56			
Total Investments in Statement of Net Position	$ 4,989,381			

NOTE 4 - PROPERTY TAXES

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

Property Tax Calendar

January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

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

The City may levy up to $3.10 per $1,000 of assessed valuation for general governmental services. The City's regular levy for 2021 was $1.004 per $1,000 on an assessed valuation of $5,704,037,281 for a total regular levy of $5,728,881. The City's permanent Emergency Medical Services (EMS) levy for 2021 was $0.344 per $1,000 on an assessed valuation of $5,704,037,281 for a total EMS levy of $1,961,060, resulting in a total levy rate of $1.348 and total levy of $7,689,941. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 5 – CAPITAL ASSETS

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

A. Capital Assets – Governmental Activities

Capital assets activity for the year ended December 31, 2021, was as follows:

Governmental activities	Balance 1/1/2021	Increases	Decreases	Balance 12/31/2021
Capital assets, not being depreciated				
Land	$ 43,724,327	$ 916	$ -	$ 43,725,242
Right of way	10,988,766	444	-	10,989,210
Art	287,624	-	-	287,624
Infrastructure - streets	103,852,485	16,881,376	-	120,733,861
Construction in progress	12,832,166	6,298,257	(17,349,581)	1,780,841
Total capital assets, not being depreciated	171,685,267	23,180,992	(17,349,581)	177,516,779
Capital assets, being depreciated				
Buildings	27,942,822	-	-	27,942,822
Other improvements	10,059,751	2,819,365	-	12,879,116
Machinery and equipment	10,430,666	656,632	(102,064)	10,985,234
Infrastructure	12,810,968	-	-	12,810,968
Total capital assets being depreciated	61,457,731	3,475,998	(102,064)	64,618,140
Less accumulated depreciation for				
Buildings	(9,107,470)	(506,382)	-	(9,613,852)
Other improvements	(7,208,289)	(673,655)	-	(7,881,944)
Machinery and equipment	(7,564,017)	(994,907)	28,463	(8,530,461)
Infrastructure	(9,479,710)	(189,738)	-	(9,669,448)
Total accumulated depreciation	(33,359,486)	(2,364,682)	28,463	(35,695,705)
Total capital assets, being depreciated, net	28,098,245	1,111,316	(73,601)	28,922,435
Governmental activities, capital assets, net	$ 199,783,512	$ 24,292,308	$ (17,423,182)	$ 206,439,214

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

Governmental activities	
General government	$ 286,207
Public safety	461,782
Transportation	359,047
Natural and economic environment	115,833
Culture and recreation	665,995
Total depreciation - governmental activities	$ 1,888,865

B. Capital Assets – Business-Type Activities

Business-type activities	Balance 1/1/2021	Increases	Decreases	Balance 12/31/2020
Capital assets, not being depreciated				
Land	$ 150,000	$ -	$ -	$ 150,000
Right of way	53,172	231	-	53,403
Construction in progress	2,502,696	2,618,822	(4,797,783)	323,735
Total capital assets, not being depreciated	2,705,867	2,619,053	(4,797,783)	527,138
Capital assets, being depreciated				
Other improvements	7,908,982	2,523,650	-	10,432,631
Machinery and equipment	1,468,955	262,419		1,731,374
Total capital assets being depreciated	9,377,937	2,786,069	-	12,164,005
Less accumulated depreciation for				
Other improvements	(4,655,227)	(221,755)	-	(4,876,982)
Machinery and equipment	(279,461)	(109,299)	-	(388,760)
Total accumulated depreciation	(4,934,689)	(331,054)	-	(5,265,742)
Total capital assets, being depreciated, net	4,443,248	2,455,015	-	6,898,263
Business-type activities, capital assets, net	$ 7,149,115	$ 5,074,068	$ (4,797,783)	$ 7,425,401

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

Business-type activities	
Surface Water	$ 331,054
Total depreciation - business-type activities	$ 331,054

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts - All Plans		
Pension liabilities	$	(367,274)
Pension assets	$	13,275,451
Deferred outflows of resources	$	1,306,458
Deferred inflows of resources	$	(9,048,100)
Pension expense/expenditures	$	(2,066,758)

STATE SPONSORED PENSION PLANS

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

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

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

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**

July – December 2021		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

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

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

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

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.97%**	**7.90%**
July – December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.25%**	**6.36%**

The City's actual PERS plan contributions were $204,556 to PERS Plan 1 and $339,724 to PERS Plan 2/3 for the year ended December 31, 2021.

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

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

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

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

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

Contributions

Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2021. Employers paid only the administrative expense of 0.18 percent of covered payroll.

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

Contributions

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

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41% in 2021.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2021		
Local Government	5.15%	8.59%
Administrative Fee	0.18%	
Total	**5.33%**	**8.59%**
July – December 2021		
Local Government	5.12%	8.53%
Administrative Fee	0.18%	
Total	**5.30%**	**8.53%**

The City's actual contributions to the plan were $333,974 for the year ended December 31, 2021.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2021, the state contributed $78,170,320 to LEOFF Plan 2. The amount recognized by the City as its proportionate share of this amount is $206,313.

ACTUARIAL ASSUMPTIONS

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

DISCOUNT RATE

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

LONG-TERM EXPECTED RATE OF RETURN

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

ESTIMATED RATES OF RETURN BY ASSET CLASS

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

SENSITIVITY OF THE NET PENSION LIABILITY/(ASSET)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 625,672	$ 367,274	$ 141,924
PERS 2/3	(1,096,581)	(3,849,265)	(6,116,102)
LEOFF 1	(96,896)	(107,631)	(116,918)
LEOFF 2	(5,876,287)	(9,318,555)	(12,137,085)

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

PENSION LIABILITIES (ASSETS), PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2021, the City its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	$ 367,274
PERS 2/3	(3,849,265)
LEOFF 1	(107,631)
LEOFF 2	(9,318,555)

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

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	$ (107,631)	$ (9,318,555)
State's proportionate share of the net pension asset associated with the employer	(728,014)	(6,011,485)
TOTAL	$ (835,646)	$ (15,330,040)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.029263%	0.030074%	0.000811%
PERS 2/3	0.038083%	0.038641%	0.000558%
LEOFF 1	0.003066%	0.003142%	0.000076%
LEOFF 2	0.165824%	0.160432%	-0.005392%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2021. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2021, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2021, the state of Washington contributed 39 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61 percent of employer contributions.

PENSION EXPENSE

For the year ended December 31, 2021, the City recognized pension expense as follows:

	Pension Expense
PERS 1	$ (40,048)
PERS 2/3	(880,229)
LEOFF 1	(17,447)
LEOFF 2	(1,129,033)
TOTAL	$ (2,066,758)

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	--	$ (407,551)
Contributions subsequent to the measurement date	$ 90,126	--
TOTAL	$ 90,126	$ (407,551)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 186,953	$ (47,188)
Net difference between projected and actual investment earnings on pension plan investments	--	$ (3,217,083)
Changes of assumptions	$ 5,625	$ (273,362)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 66,504	$ (103,573)
Contributions subsequent to the measurement date	$ 153,623	--
TOTAL	$ 412,706	$ (3,641,206)

LEOFF 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	--	$ (32,888)
TOTAL	--	$ (32,888)

LEOFF 2	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 422,654	$ (49,248)
Net difference between projected and actual investment earnings on pension plan investments	--	$ (4,443,154)
Changes of assumptions	$ 4,028	$ (443,191)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 205,785	$ (30,862)
Contributions subsequent to the measurement date	$ 171,158	--
TOTAL	$ 803,626	$ (4,966,455)

ALL PENSION PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 609,607	$ (96,436)
Net difference between projected and actual investment earnings on pension plan investments	--	$ (8,100,676)
Changes of assumptions	$ 9,653	$ (716,552)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 272,290	$ (134,435)
Contributions subsequent to the measurement date	$ 414,908	--
TOTAL	$ 1,306,458	$ (9,048,100)

Deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2022	(107,960)
2023	(98,931)
2024	(93,543)
2025	(107,117)
2026	--
Thereafter	--
TOTAL	**(407,551)**

Year ended December 31:	PERS 2/3
2022	(887,080)
2023	(829,279)
2024	(789,577)
2025	(864,551)
2026	(14,534)
Thereafter	2,898
TOTAL	**(3,382,123)**

Year ended December 31:	LEOFF 1
2022	(8,736)
2023	(7,991)
2024	(7,540)
2025	(8,621)
2026	--
Thereafter	--
TOTAL	**(32,888)**

Year ended December 31:	LEOFF 2
2021	(1,165,705)
2022	(1,084,890)
2023	(1,023,830)
2024	(1,155,321)
2025	3,352
Thereafter	92,407
TOTAL	**(4,333,987)**

NOTE 7 - DEFINED BENEFIT OTHER POSTEMPLOYMENT AND DEFERRED COMPENSATION PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2021:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$ --
OPEB assets	--
Deferred outflows of resources	--
Deferred inflows of resources	--
OPEB expenses / expenditures	$ (375,789)

OPEB PLAN DESCRIPTION

a. The LEOFF 1 OPEB plan is administered by the City as a single-employer defined benefit plan and is not administered through a qualifying trust.

b. The plan is operated in accordance with the Revised Code of Washington (RCW) 41.26. The City provides lifetime medical care for one law enforcement officer employed prior to October 1, 1977. Under this requirement, the City provides medical, dental, long-term care insurance and reimbursement for all necessary hospital, medical, and nursing care expenses not payable by worker's compensation, social security, insurance provided by another employer or pension plan, and any other similar source. Medical insurance for the retiree is provided by the City's medical insurance program specified under the Law Enforcement Officer's Collective Bargaining Agreement. Under authorization of the LEOFF 1 Disability Board, direct payment may be made for some retiree medical expenses not covered by standard benefit plan provisions. When the member turned 65, he enrolled in Medicare Part A and B, and the City reimburses the member for his Part B premium. The City provides health coverage for the LEOFF 1 retiree through a Medicare Advantage (Medicare Part C) plan administered by Premera and their LEOFF Health and Welfare Trust. The City also reimburses the retiree for a Medicare Part D (drug) plan administered by Aetna. In addition, the City reimburses the retiree the necessary usual and customary medical (out of pocket) expenses in excess of those covered by the applicable medical plan, including Part D monthly premiums. Dental benefits are covered too. The City also purchased a long-term care insurance plan from Unum Life Insurance Company. The retiree does not contribute towards the cost of his medical care.

c. Employees covered by benefit terms at December 31, 2021 include zero inactive employee. There are zero inactive employees entitled to benefits that are not currently receiving those benefits and there are zero active employees.

d. The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

e. During the year ended December 31, 2021, the City paid $9,243 in plan benefits as they became due.

CHANGES IN THE TOTAL OPEB LIABILITY

LEOFF 1 OPEB Plan	
Total OPEB liability at 01/01/2021	$ 392,132
Service cost	--
Interest	--
Changes of benefit terms	--
Changes in experience data & assumptions	--
Benefit payments	--
Other changes	(392,132)
Total OPEB liability at 12/31/2021	--

At December 31, 2021, the City reported no deferred outflows of resources and deferred inflows of resources related to OPEB.

Deferred Compensation

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

NOTE 8 - RISK MANAGEMENT

Washington Cities Insurance Authority

The City of Mukilteo is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

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

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

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $400 million per occurrence subject to aggregates and sublimits.

Automobile physical damage coverage is self-funded from the members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

There were no claims in excess of insurance coverage during the year ended December 31, 2021.

Unemployment

The City is a reimbursable employer with the Washington State Employment Security Department; therefore, it is self-insured for unemployment. Claims are processed by the State and paid by the City. Below is an analysis of claims activity for the two years ended December 31, 2021:

	2020	2021
Liability – beginning	$	$
Claims incurred	7,348	21,911
Claims payments	7,348	21,911
Adjustments		
Liability - ending	$ 0	$ 0

NOTE 9 - LEASE OBLIGATIONS

Operating lease

The City leases copy equipment under noncancelable operating leases. Total cost for such leases was $10,905 for the year ended December 31, 2021. The future minimum lease payments for these leases are as follows: $3,007 for the year ended December 31, 2022.

NOTE 10 - LONG-TERM DEBT

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

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

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

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

At December 31, 2021, the City had the following general obligation bonds outstanding:

	Issue Date	Maturity Date	Average Coupon Interest Rate	Issuance Amount	Beginning Balance 1/1/2021	Additions	Deletions	Outstanding Balance at 12/31/2021
GENERAL OBLIGATION BONDS								
2017 LTGO Advanced Refunding Bonds	2/19/2017	12/1/2029	2.40%	$ 7,980,000	$ 7,035,000	$ -	$ 710,000	$ 6,325,000
Total General Obligation Bonds				$ 7,980,000	$ 7,035,000	$ -	$ 710,000	$ 6,325,000

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

Year Ending December 31	Principal	Interest
2022	$ 730,000	$ 151,800
2023	745,000	134,280
2024	760,000	116,400
2025	780,000	98,160
2026	800,000	79,440
2027-2029	2,510,000	121,440
Total	$ 6,325,000	$ 701,520

NOTE 11 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The City had the following significant contractual obligations on construction projects at December 31, 2021:

Contracting Entity	Project Name	Balance
Perteet	SW Maint (Pond M, Clearview Pond, 6 Storm)	$ 26,148
Interwest Construction, Inc.	Decant Facility	28,508
Perteet	76th St & SR525 Pedestrian Improvements	46,913
Perteet	60th Ave W Drainage	62,307
PACE Engineers, Inc.	Decant Facility	63,993
H.W. Lochner, Inc.	Harbour Reach Drive Extension Preliminary Engineering	156,080
The Blueline Group	Pavement Preservation	246,690
Perteet	Harbour Reach Corridor Project	510,005
KPFF Consulting Engineers	5th St Bicycle & Pedestrian Improvements	543,745
Granite Construction	Pavement Preservation	627,911
		$ 2,312,299

NOTE 12 - CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows for the year ended December 31, 2021:

	Balance 1/1/2021	Additions	Reductions	Balance 12/31/2021	Due Within One Year
Governmental activities:					
General obligation bonds	$ 7,035,000	$ -	$ (710,000)	$ 6,325,000	$ 730,000
Compensated absensces	1,824,625	-	(18,866)	1,805,759	931,359
Pension obligations	1,229,630	-	(934,183)	8,278,130	-
Other post-employment benfits	392,132	-	(392,132)	-	-
Governmental activities - long-term liabilities	10,481,387	-	(2,055,181)	16,408,889	1,661,359
Business-type activities:					
Compensated absensces	155,970	-	(25,655)	130,315	91,241
Pension obligations	290,572	-	(218,745)	769,970	-
Business-type activities - long-term liabilities	446,542	-	(244,400)	900,285	91,241
	$ 10,927,929	$ -	$ (2,299,581)	$ 17,309,174	$ 1,752,600

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end $24,702 of internal service funds compensated absences and $18,712 of internal service funds pension obligations are included in the above amounts.

NOTE 13 - CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the City will have to make payment. A pending lawsuit regarding stormwater discharge with alleged damage to private property and any potential liability will be partially covered by the City's insurance. There is no estimated exact loss amount available.

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

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

Interfund transfers

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

Interfund transfers at December 31, 2021 were as follows:

	Transfers In				
Transfers Out	General Fund	Debt Service Fund	Capital Projects Fund	Facility Renewal Fund	Total
General Fund	$ -	$ -	$ 20,910	$ 85,000	$ 105,910
Capital Projects Fund	115,500	873,675	-	-	989,175
Surface Water Fund	2,312,633	-	-	10,450	2,323,083
Totals	$ 2,428,133	$ 873,675	$ 20,910	$ 95,450	$ 3,418,168

The General Fund transferred $85,000 to the Facility Renewal Fund to fund various equipment and vehicle replacements. The General Fund transferred $20,910 to the Capital Projects Fund for 2021 transportation improvements.

The Capital Projects Fund transferred $115,500 to the General Fund to help fund the Capital Project Engineer position. The Capital Projects Fund also transferred $873,675 to the Debt Service Fund for general obligation debt payments.

The $2,312,633 transfer from Surface Water Fund to General Fund was to recover a portion of the Capital Project Engineer salary and benefits, and to reflect the reclassification of the completed 61st Place Retaining Wall Repair Project. The transfer of $10,450 from the Surface Water Fund to the Facility Renewal Fund was for partial payment on various equipment purchases.

NOTE 15 - JOINT VENTURES

Snohomish County 911

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

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

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this agreement shall be returned to the parties to this agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the City's share was $835,551 on December 31, 2021.

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

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

Alliance for Housing Affordability

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

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

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different than what was reported in previous years.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided $50,000 to assist with the first two years of organizational start-up. The City's equity share to date is $2,208. This is not considered material therefore the value has not been recorded in the financial statements.

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

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

NOTE 16 - COVID-19

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

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

The City is in a strong financial position to face this unprecedented situation with fund balances that exceed minimum levels and high liquidity. The primary anticipated fiscal impacts for 2021 are reduced revenues from sales tax, fuel tax, other sales tax supported State shared revenues, reduced revenues from community center rental fees, and parking revenues. In addition, the City has incurred unbudgeted expenditures for personnel costs to respond to the emergency as well as the purchase of personal protective equipment, cleaning supplies and telework equipment.

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

CONDITION ASSESSMENT AND PRESERVATION OF INFRASTRUCTURE ELIGIBLE FOR MODIFIED ACCOUNTING APPROACH

Streets:

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

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

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

Table 1

Overall Pavement Condition Assessment 2014, 2016, 2018 & 2020

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

The City's goal is to maintain 80% of the City-wide pavement system at a condition level of "Very Good" and 100% of the City-wide pavement system at a condition level of "Good' or better.

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

Table 2
Pavement Mileage by Functional Class

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

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

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

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2016 to 2021.

Year	2021	2020	2019	2018	2017	2016
Planned	$ 2,469,352	$ 1,624,261	$ 1,706,500	$ 3,244,600	$ 1,045,000	$ 882,000
Actual	189,151	266,216	819,785	907,801	722,108	350,022
Variance	$ 2,280,201	$ 1,358,045	$ 886,715	$ 2,336,799	$ 322,892	$ 531,978
	92.34%	83.61%	51.96%	72.02%	30.90%	60.31%

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budgetary and Actual
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with
Revenues	Original	Final	Amounts	Final Budget
Taxes	$ 13,925,591	$ 13,925,591	$ 14,645,697	$ 720,106
Licenses and permits	1,825,650	1,825,650	1,874,854	49,204
Intergovernmental revenues	1,542,460	1,542,460	1,591,050	48,590
Charges for services	1,116,220	1,116,220	1,066,119	(50,101)
Fines and penalties	180,550	180,550	174,377	(6,173)
Miscellaneous	1,336,250	1,336,250	1,205,935	(130,315)
Total revenues	19,926,721	19,926,721	20,558,033	631,312
Expenditures				
Current:				
General government	4,342,350	4,342,350	4,479,062	136,712
Public safety	11,239,234	11,314,234	11,150,433	(163,801)
Transportation	1,300,200	1,300,200	1,299,333	(867)
Natural & economic environment	1,225,100	1,225,100	1,053,257	(171,843)
Social services	27,478	27,478	27,884	406
Culture and recreation	1,573,738	1,573,738	1,541,271	(32,467)
Capital outlay:				
General government	20,000	20,000	95,278	75,278
Total expenditures	19,728,100	19,803,100	19,646,518	(156,582)
Excess (deficiency) of revenues over (under) expenditures	198,621	123,621	911,514	787,893
Other Financing Sources (Uses)				
Transfers in	1,757,880	1,923,388	154,000	(1,769,388)
Insurance recovery	1,000	1,000	18,113	17,113
Transfers out	(2,326,506)	(2,492,014)	(105,909)	2,386,105
Total other financing sources and uses	(567,626)	(567,626)	66,203	633,829
Net change in fund balances	(369,005)	(444,005)	977,717	1,421,722
Fund balances - beginning	7,448,706	7,448,706	7,448,706	-
Fund balances - ending	$ 7,079,701	$ 7,004,701	$ 8,426,424	$ 1,421,722

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios
LEOFF 1 OPEB Plan
For the year ended December 31, 20XX
Last 4 Fiscal Years *

	2021	2020	2019	2018
Total OPEB liability - beginning	$ 392,132	$ 360,608	$ 376,868	$ 372,278
Service cost	-	-	-	-
Interest	-	12,141	14,080	12,933
Changes in benefit terms	-	-	(32,702)	-
Differences between experience data & assumptions	-	21,860	2,362	(7,529)
Benefit payments	-	(2,477)	-	(814)
Other changes	(392,132)	-	-	-
Total OPEB liability - ending **	$ -	$ 392,132	$ 360,608	$ 376,868
Covered payroll***	-	-	-	-
Total OPEB liability as a % of covered payroll	N/A	N/A	N/A	N/A

Notes to Schedule:

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

** The City's last member of LEOFF 1 passed away in 2021. Liability is ended with a $0 balance.

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

CITY OF MUKILTEO

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability

As of June 30, 20XX

Last 8 Fiscal Years *

PERS 1 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.030074%	0.029263%	0.030327%	0.03333%	0.03197%	0.03279%	0.033352%	0.031653%
Employer's proportionate share of the net pension liability (asset)	$ 367,274	$ 1,033,142	$ 1,166,181	$ 1,488,484	$ 1,517,145	$ 1,760,924	$ 1,744,620	$ 1,594,535
Employer's covered payroll	$ 4,621,606	$ 4,439,862	$ 3,293,382	$ 3,655,663	$ 3,960,306	$ 3,869,185	$ 3,660,412	$ 3,290,203
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7.95%	23.27%	35.41%	40.72%	38.31%	45.51%	47.66%	48.46%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

PERS 2/3 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.038641%	0.038083%	0.039156%	0.04279%	0.03965%	0.04064%	0.039290%	0.036539%
Employer's proportionate share of the net pension liability (asset)	$ (3,849,265)	$ 487,060	$ 380,338	$ 730,533	$ 1,377,752	$ 2,046,192	$ 1,403,854	$ 738,585
Employer's covered payroll	$ 4,621,606	$ 4,439,862	$ 3,293,382	$ 3,655,663	$ 3,900,083	$ 3,813,595	$ 3,515,670	$ 3,128,153
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-83.29%	10.97%	11.55%	19.98%	35.33%	53.66%	39.93%	23.61%
Plan fiduciary net position as a percentage of the total pension liability	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

LEOFF 1 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.003142%	0.003066%	0.003001%	0.00295%	0.00376%	0.00470%	0.004645%	0.004607%
Employer's proportionate share of the net pension liability (asset)	$ (107,631)	$ (57,902)	$ (59,318)	$ (53,521)	$ (57,063)	$ (48,382)	$ (55,983)	$ (55,873)
State's proportionate share of the net pension liability (asset) associated with the employer	$ (728,013)	$ (391,648)	$ (401,225)	$ (362,015)	$ (385,973)	$ 854,936	$ 989,419	$ 1,092,391
TOTAL	$ (835,644)	$ (449,550)	$ (460,543)	$ (415,536)	$ (443,036)	$ 806,554	$ 933,436	$ 1,036,518
Employer's covered payroll	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's proportionate share of the net pension liability as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	187.45%	146.88%	148.78%	144.42%	135.96%	123.74%	127.36%	126.91%

LEOFF 2 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.160432%	0.165824%	0.166120%	0.173910%	0.169320%	0.175090%	0.176909%	0.185026%
Employer's proportionate share of the net pension liability (asset)	$ (9,318,555)	$ (3,382,567)	$ (3,848,444)	$ (3,530,651)	$ (2,349,543)	$ (1,018,376)	$ (1,818,271)	$ (2,455,375)
State's proportionate share of the net pension liability (asset) associated with the employer	$ (6,011,485)	$ (2,191,342)	$ (2,520,215)	$ (2,286,030)	$ (1,524,105)	$ (663,907)	$ (1,202,242)	$ -
TOTAL	$ (15,330,040)	$ (5,573,909)	$ (6,368,659)	$ (5,816,681)	$ (3,873,648)	$ (1,682,283)	$ (3,020,213)	$ (2,455,375)
Employer's covered payroll	$ 6,200,708	$ 6,249,146	$ 5,789,191	$ 5,718,957	$ 5,306,023	$ 5,302,559	$ 5,149,879	$ 5,012,176
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-150.28%	-54.13%	-66.48%	-61.74%	-44.28%	-19.21%	-35.31%	-48.99%
Plan fiduciary net position as a percentage of the total pension liability (asset)	142.00%	115.83%	119.43%	118.50%	113.36%	106.04%	111.67%	61.19%

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

Notes to Schedule:

Significant methods and assumptions used in calculating the actuarial determined contribution are presented in Note 6.

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

As of December 31, 20XX

Last 8 Fiscal Years *

PERS 1 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 204,556	$ 216,605	$ 206,644	$ 218,387	$ 215,055	$ 186,362	$ 158,036	$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	$ (204,556)	$ (216,605)	$ (206,644)	$ (218,387)	$ (215,055)	$ (186,362)	$ (158,036)	$ (538,081)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Covered payroll	$ 4,714,694	$ 4,517,511	$ 3,338,310	$ 3,451,002	$ 4,006,267	$ 3,831,894	$ 3,505,649	$ 3,217,521
Contributions as a percentage of covered payroll	4.34%	4.79%	6.19%	6.33%	5.37%	4.86%	4.51%	16.72%

PERS 2/3 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 339,724	$ 357,764	$ 345,250	$ 323,537	$ 281,188	$ 253,930	$ 209,660	$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	$ (339,724)	$ (357,764)	$ (345,250)	$ (323,537)	$ (281,188)	$ (253,930)	$ (209,660)	$ (538,081)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Covered payroll	$ 4,714,694	$ 4,517,511	$ 3,338,310	$ 3,451,002	$ 3,973,885	$ 3,778,534	$ 3,419,503	$ 3,058,441
Contributions as a percentage of covered payroll	7.21%	7.92%	10.34%	9.38%	7.08%	6.72%	6.13%	17.59%

LEOFF 1 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions made in relation to the statutorily or contractually required contributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Covered payroll	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

LEOFF 2 PLAN	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 333,974	$ 318,753	$ 319,510	$ 302,830	$ 283,092	$ 271,069	$ 263,284	$ 538,081
Contributions made in relation to the statutorily or contractually required contributions	$ (333,974)	$ (318,753)	$ (319,510)	$ (302,830)	$ (283,092)	$ (271,069)	$ (263,284)	$ (538,081)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
Covered payroll	$ 6,474,035	$ 6,173,210	$ 6,059,948	$ 5,725,591	$ 5,236,373	$ 5,134,770	$ 4,976,657	$ 4,792,253
Contributions as a percentage of covered payroll	5.16%	5.16%	5.27%	5.29%	5.41%	5.28%	5.29%	11.23%

* The City implemented GASB Statement No. 68 in fiscal year 2014. Information is not available for prior years. The schedule will be built prospectively until it contains ten years of data. There are no significant change in benefit terms, changes in the size or composition of the population covered, nor in the use of basic assumptions.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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