Financial Section

City of Mukilteo
Snohomish County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

The City of Mukilteo presents this Management's Discussion and Analysis of its financial activities for the year ended December 31, 2012. This information is designed to assist the reader in focusing on significant issues while providing an overview of the City's financial activity. The City encourages readers to consider this information in conjunction with additional information provided in the financial statements and notes that follow.

Financial Highlights

- The assets of the City of Mukilteo exceeded liabilities as of December 31, 2012 by $189,052,009. Of this amount $16,925,728 may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's overall financial position decreased by $343,773 in 2012. The decrease is attributed to a decrease from governmental activities of $841,477 and an increase from business-type activities of $497,704. However, Total Revenues [exclusive of Grants and Contributions] increased by $916,590 over 2011. Additional information on City's financial condition is discussed below in the Government-wide Financial Analysis.

- During 2012, the City continued working on developing a Long-Range Financial Plan for the City as a strategic financial planning tool to help guide decision makers, inform citizens, to identify problems and opportunities and also provide an avenue for Council, citizens and staff to discuss the City's financial policies.

- At the end of the current fiscal year, the City of Mukilteo's governmental funds reported combined ending fund balances of $11.3 million, a decrease of $1.56 million in comparison with the prior year. Approximately $1.8 million of this amount, or 16 percent of total 2012 General Fund expenditures, is *available for spending* at the government's discretion (*unassigned fund balance).*

- Reflected in the General Fund operating statements, general revenues that were primarily from property, sales, utility and general taxes were used to support the following major activities:
  a. $2,663,447 was applied to General Government purposes – City Council, Legal, Administration, and Finance;
  b. $6,848,415 for Public Safety – Police, Fire, and Protective Inspection;
  c. $210,174 for Physical Environment – Air Pollution and Environment;
  d. $940,552 for Economic Environment;
  e. $595,935 for Culture and Recreation – Participant Recreation, Parks and Recreation Facilities.
  f. $156,677 for Capital Outlay.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information. This section will introduce and explain the basic financial statements.

Government-wide financial statements

Government-wide financial statements are designed to provide readers a picture of the financial condition and activities of the City of Mukilteo as a whole, with a broad overview and in a manner similar to private-sector business. The government-wide financial statements have separate columns for governmental activities and business-type activities. The City's governmental activities include general government (legislative, executive, finance and personnel), public safety (police and fire), physical environment, economic environment, culture/recreation and transportation.

The City's business-type activities consist of the surface water utility. Government activities are primarily supported by taxes, charges for services and grants, while business-type activities are self supporting through user fees and charges.

The **Statement of Net Position** presents information on all of the City's assets and liabilities with the difference between the two reported as net position. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of improvement or deterioration in the City's overall financial health.

The **Statement of Activities** presents information designed to show how the City's net position changed during the year. This statement distinguishes revenue generated by specific functions (program revenue) from revenue provided by taxes and other sources not related to a specific function. Program revenue (charges for services, grants and contributions) is compared to expenses for those functions in order to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year are included in the statement of activities as revenues and expenses even though no cash has changed hands.

The government-wide financial statements can be found immediately following the Management Discussion & Analysis.

Fund Financial Statements
The fund financial statement will look familiar to the traditional users of governmental financial statements. However, the focus now is on major funds rather than fund types.

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for government activities in the government-wide financial statements. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison.

Information for the three major governmental funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances; information for the non-major funds is presented in the aggregate.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail, since both use the accrual basis of accounting. Proprietary funds report the same functions presented as business-type activities in the government-wide financial statements.

The City has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various City departments.

The enterprise fund statements provide information for the City's surface water utility. The City uses internal service funds to account for its fleet of vehicles and facilities maintenance. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary funds account for assets held by the City in a trustee capacity. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support City programs. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position as part of the basic financial statements.

Notes to the Financial Statements
The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position
The statement of net position can serve as a useful indicator of the City's financial position. The City's net position on December 31, 2011 and 2012 total $189,395,782 and $189,052,009, respectively. Following is a condensed version of the government-wide statement of net position for 2012 compared with 2011.

Figure 1: Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	$15,734,166	$16,026,754	$1,459,321	$1,869,908	$17,193,487	$17,896,662
Capital Assets	180,687,849	181,964,661	4,678,229	3,730,620	185,366,078	185,695,281
Total Assets	196,422,015	197,991,415	6,137,550	5,600,528	202,559,565	203,591,943
Liabilities						
Current and Other Liabilities	1,095,843	1,184,719	100,915	57,136	1,196,758	1,241,855
Long-term Liabilities	12,308,176	12,947,223	2,623	7,083	12,310,799	12,954,306
Total Liabilities	13,404,019	14,131,942	103,538	64,219	13,507,557	14,196,161
Net Position						
Invested in Capital Assets, Net of Related Debt	$169,325,548	$170,334,985	$4,678,229	$3,730,620	$174,003,777	$174,065,605
Restricted	5,123,700	5,954,141	0	0	5,123,700	5,954,141
Unrestricted	8,568,748	7,570,347	1,355,783	1,805,689	9,924,531	9,376,035
Total Net Position	$183,017,995	$183,859,473	$6,034,012	$5,536,308	$189,052,008	$189,395,782

The largest portion of the City's net position (92%) reflects investment of $174 million in capital assets such as land, buildings, and equipment. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The restricted portion of net position of $5.1 million or 2.7% of the total net position primarily consist of $4.4 million for capital improvements, $288,000 for emergency medical services, and $227,000 for transportation. Additional information on the City's restricted portion of net position can be found in note 12. The unrestricted portion of net position of $9.9 million or 5.2 % of the total net position may be used to meet ongoing obligations to citizens and creditors.

Change in Net Position

The change in net position table illustrates the increases and decreases in net position of the City resulting from its operating activities. The City's net position decreased $343,773 in 2012. The decrease is attributable to a decrease from governmental activities of $841,477 and an increase from business-type activities of $497,704.

The following is a condensed version of the City's changes in net position. The table below shows revenues, expenses, and related changes in net position in tabular form for the governmental activities separate from the business-type activities for 2011 and 2012.

Figure 2: Changes in Net Position Resulting from Revenues and Expenses

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenue:						
Charges for Services	$3,327,437	2,696,828	$1,280,618	$1,385,525	$4,608,055	$4,082,353
Operating Grants and Contributions	83,884	112,943	842,342	0	926,227	112,943
Capital Grants and Contributions	262,466	864,468	0	0	262,466	864,468
General Revenues:						
Property Taxes	6,183,673	6,277,896	0	0	6,183,673	6,277,896
Sales Taxes	2,345,106	2,281,034	0	0	2,345,106	2,281,034
Other Taxes	4,458,126	4,534,052	0	0	4,458,126	4,534,052
Interest and Investment earnings	32,860	35,052	3,088	3,080	35,948	38,132
Other	699,760	200,612	0	0	699,760	200,612
Total Revenue	$17,393,313	$17,002,885	$2,126,048	$1,388,605	$19,519,362	$18,391,490
Expenses						
Governmental Activities						
General government	$3,559,645	3,444,222	$0	$0	3,559,645	3,444,222
Public safety	9,014,962	8,681,873	0	0	9,014,962	8,681,873
Physical environment	285,518	282,463	0	0	285,518	282,463
Economic environment	1,044,990	1,047,456	0	0	1,044,990	1,047,456
Culture and recreation	2,276,222	1,693,891	0	0	2,276,222	1,693,891
Transportation	1,621,469	8,695,553	0	0	1,621,469	8,695,553
Interest on Debt	431,983	446,615	0	0	431,983	446,615
Business-Type Activities						
Surface Water Management	0	0	1,628,344	1,369,980	1,628,344	1,369,980
Total Expenses	$18,234,790	$24,292,074	$1,628,344	$1,369,980	$19,863,133	$25,662,054
Excess (Deficiency) Before Transfers	(841,477)	(7,289,189)	497,704	18,625	(343,772)	(7,270,564)
Transfers						
Increase (Decrease) in Net Position	(841,477)	(7,289,189)	497,704	18,625	(343,772)	(7,270,564)
Net Position - Beginning of Year	183,859,473	180,568,482	5,536,308	5,517,684	189,395,781	186,086,166
Prior Year Adjustments	0	10,580,181	0	0	0	10,580,181
Net Position - End of Year	$183,017,996	$183,859,474	$6,034,012	$5,536,309	$189,052,009	$189,395,783

Governmental Activities Analysis

In 2011 Net Position totaled $183,859,474, and totaled $183,017,996 in 2012, a decrease of $841,477. Key elements of the 2012 decrease are as follows:

- Cost of all governmental activities in 2012 was $18.2 million. Of this amount, $3.3 million was paid for by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The net expense (total expenses less program, investment, sale of asset revenues) or $14.5 million was the cost of governmental services paid primarily by the City's taxpayers.
- Sales, property, and utility taxes are the primary sources of tax revenue available to fund general city operations. Retail sales and use tax revenues increased slightly over 2011 levels by $64,000. Property tax collections available for general use decreased $94,000 or 1.5%. Other tax revenue growth decreased slightly for the year.

- Charges for Services, including business license & development fees, permits, inspections and plan review services, increased by 23.4% over 2011, due to increases from license & permit and community center user fee activities.
- Overall governmental activities expenses decreased in 2012 over 2011 by 24.9% at $6.1 million.

Business-Type Activities Analysis
The City's Surface Water Management Fund's financial position increased in 2012 with net position increasing by $497,704. 2012 charges for service revenues of $1,280,618 showed a decrease of $104,907 from 2011 collections, and operating costs including personnel services, supplies and professional services increased $258,364.

At the end of the current fiscal year, the City's Surface Water Management Fund reported ending net position of $6.0 million. Of this amount $4.7 million is invested in capital assets and $1.3 million constitutes unrestricted balance, which is available for discretionary spending.

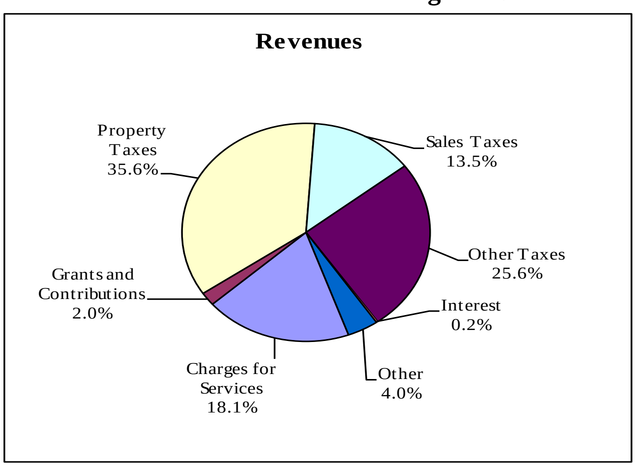
FINANCIAL ANALYSIS OF THE CITY'S FUNDS

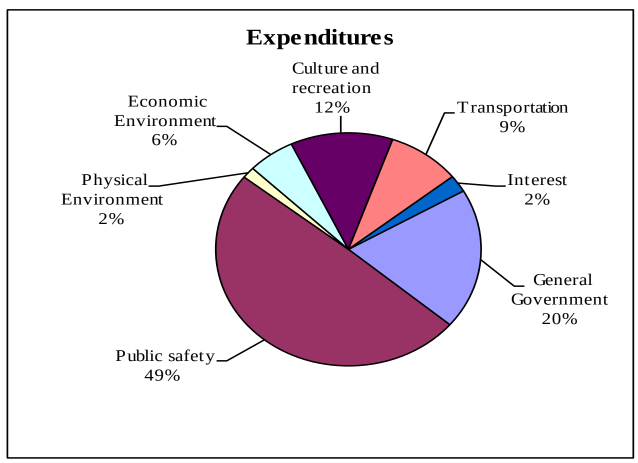
As discussed earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds
The focus of the City's governmental funds analysis is to provide information on near-term revenues/financial resources and expenditures. This information helps determine the City's financing requirements in the near future. In particular, fund balance measures the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year the City's governmental funds reported ending fund balances of $11.3 million. Approximately $1.8 million (16.3%) of that amount constitutes unassigned fund balance, which is available for discretionary spending. The remainder of the fund balance is restricted, assigned; or is committed for various purposes and is not available for new spending. Revenues for the governmental funds in 2012 were $16.6 million. Expenditures were $16.8 million. Overall, fund balances decreased $1.56 million for the year.

Figure 3: Governmental Activities





The General Fund is the main operating fund of the City through which all receipts and payments of ordinary City operations are processed, unless legally required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2012, the fund balance of the General Fund was $5,602,037. As a measure of fund's liquidity, the ending fund balance is 49% of the fund's 2012 expenditures. As of December 31, 2012, total assets were $6,278,897 and total liabilities were $676,860. The net change in fund balance for the General Fund in 2012 was a decrease of $819,875 or 12.4% from the 2011 ending balance. This decrease was primarily the result of transferring $1,014,000 to the equipment replacement fund to fund the purchase of two new Fire Pumper Trucks in 2013.

The Recreation & Cultural Services Fund – is a special revenue fund, which receives recreation and cultural service activities fee and rental revenues and funds the expenditures for the operations and maintenance of the Rosehill Community Center building and programs. At the end of 2012, the fund balance was $20,393. As a measure of fund's liquidity, the ending fund balance is 3.1% of the fund's 2012 expenditures. As of December 31, 2012, total assets were $259,014 and total liabilities were $238,622. The net change in fund balance for 2012 was an increase of $5,395 or 36.0% from the 2011 ending balance. This increase was primarily the result of an increase in program revenues.

The Hotel/Motel Lodging Tax Fund is a special revenue fund which receives 2% hotel/motel tax assessed on hotels/motels operating within the City. These funds are mandated to be used only for tourism promotion and operations and maintenance of tourism facilities in the City. At the end of 2012, the fund balance was $94,118. As a measure of fund's liquidity, the ending fund balance is 93.1% of the fund's 2012 expenditures. As of December 31, 2012, total assets were $238,688 and total liabilities were $144,569. The net change in fund balance for 2012 was an increase of $83,449 from the 2011 ending balance. This increase was primarily the result of an increase in tax revenues and the fund paying its debt down.

Emergency Medical Services Fund – is a special revenue fund which receives revenues from a voter approved tax levy to fund advanced life support services. At the end of 2012, the fund balance was $288,436. As a measure of fund's liquidity, the ending fund balance is 15.5% of the fund's 2012 expenditures. As of December 31, 2012, total assets were $365,048 and total liabilities were $76,612. The net change in fund balance for 2012 was a decrease of $156,810 or 35.2% from the 2011 ending balance. This decrease resulted primarily from lower tax revenues.

The Real Estate Excise Tax I Fund – is a capital projects fund, which accounts for real estate excise tax (REET) proceeds from the first 0.25% of the tax that is locally imposed on all sales of real estate. At the end of 2012, the fund balance was $3,876,673. As a measure of the fund's liquidity, the ending fund balance is 3 times the fund's 2012 expenditures and transfers out. As of December 31, 2012, total assets were $3,889,592 and total liabilities were $12,920. The net change in fund balance for 2012 was a decrease of $834,508 or 17.7% from 2011 ending balance. The City is carefully managing the spend down of fund balance as the local economy continues its recovery.

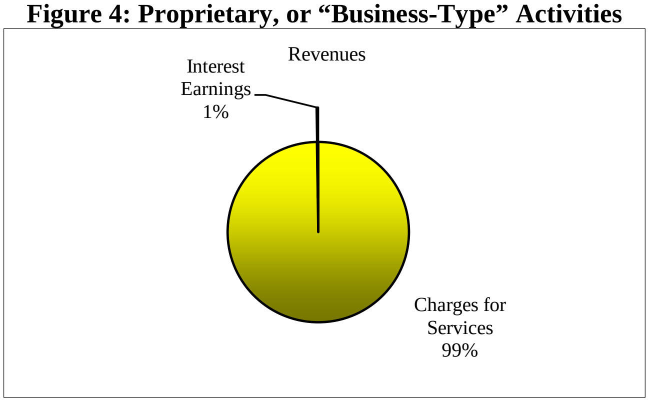
Other Governmental Funds – the City has nine other governmental funds, which includes three special revenue funds, four capital projects funds and one Debt service fund. These funds reported total assets of $1,521,743, total liabilities of $125,828 and fund balances of $1,395,915.

Business-type Activities

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net position of the Surface Water Management Fund at the end of the year amounted to $6 million. The largest portion of proprietary net position, $4.6 million (77.5%) reflects investment in capital assets. The remaining $1.4 million (22.5%) represents unrestricted funds.

Figure 4: Proprietary, or "Business-Type" Activities



Surface Water Management Fund revenues are primarily generated from stormwater fees.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was $1,119,065 increase in appropriations between the original and final amended budget. The following are the main components of the increase:

- $1,014,575 in appropriations for transfer to the Equipment Replacement Fund to fund the purchase of two new Fire Pumper Trucks,
- $81,530 in appropriations for overtime pay for public safety employees, who were required to work additional hours for storm coverage.

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that the total revenues exceeded the budgeted total revenues by approximately $281,300. Total tax revenues exceeded budgeted tax revenues by $88,000. Business license and permits revenues exceeded budget by $117,000 and $93,000 respectively. Grant revenues exceeded budget by $34,000. Anticipated charges for services and fines & forfeitures came in under expectations.

Expenditures were $601,000 below budget, which primarily consisted of $201,000 savings on expenditures for services, $143,000 savings on public safety, $124,000 on expenditures for economic environment, $57,000 savings on capital expenditures and culture & recreation expenditures savings of $69,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012 amounts to $185.4 million (net of accumulated depreciation).

Figure 5: Capital Assets at Year End, Net of Depreciation

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$24,354,240	$24,454,988	$150,000	$150,000	$24,504,240	$24,604,988
Right of way easements	10,580,181	10,580,181	0	0	10,580,181	10,580,181
Art collection	183,890	175,520	0	0	183,890	175,520
Building	23,202,245	15,852,863	0	0	23,202,245	15,852,863
Improvements other than buildings	6,322,772	5,325,052	3,654,208	3,101,830	9,976,981	8,426,882
Machinery & equipment	4,433,718	2,497,833	133,912	145,276	4,567,630	2,643,109
Infrastructure	106,420,141	105,922,906	0	0	106,420,141	105,922,906
Construction in Progress	5,190,661	16,876,061	740,108	333,513	5,930,769	17,209,574
	$180,687,847	$181,685,403	$4,678,229	$3,730,620	$185,366,077	$185,416,023

Additional information on the City's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

During 2009 Standard & Poor's assigned its highest municipal bond rating of "AAA" for the City's issuance of $12,585,000 limited tax general obligation bonds for the construction of a new community center. The 2009 bond debt is backed by the full faith and credit of the City. Principal payments began in 2010. Additional information on long-term debt can be found in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's 2013 budget is a continuation of our plan to keep the City on solid ground for providing services to our citizens during 2013 and for years to come. The plan for the City recognizes the financially unsettling times we are experiencing as a community, but also recognizes the fact that we cannot control the economy as a whole. With this being said, the 2013 Budget lays out the City's vision for achieving our immediate priorities and implementing our long-term goals beyond 2013.

The budget emphasizes working with what we have and with what we are. To capture an outsiders point-of-view of who we are and what we have, we will share a few perspectives from CNN's 2011 poll and Money Magazine's September 2011 article on **100 Best Places to Live in America** and Standard & Poor's bond rating rationale.

- We can't say enough about how proud we are of having our beautiful City rated ninth best City to live in America by CNN and Money magazine. Money magazine states "What's more, as West Coast towns go, Mukilteo is in good economic shape. Bank-owned homes represent a small fraction of the houses on the market, and area employers, including Boeing, are hiring again. The town is spending to beef up its attractions: A new 29,000-square foot community center made its debut in February, and historic Lighthouse Park recently got a makeover."

- Additionally, Standard and Poor's spent many hours in understanding the City's finances and financial polices while developing their credit rating for our new Community Center bond issue. Standard & Poor's research concluded by recognizing our City's unique financial position by bestowing their highest rating of AAA on us. There are only four other municipalities in the State to receive this high of a rating. This AAA rating states a lot more about what kind of City Mukilteo has become and where we are heading than simply telling investors we are a safe haven to invest in. To quote Standard & Poor's bond rating rationale, they state the basis for our credit strengths include:
    - "What we consider to be very strong wealth and income levels;
    - Maintenance of very strong unrestricted fund balances
    - Good financial policies and practices; and
    - Low to moderate debt burden with low carrying charges."

These amenities CNN, Money magazine and Standard & Poor's identify have only come into existence through thoughtful policy development and deployment. And these policies have been brought into existence through laboring many hours at Council meetings, Council Worksessions and Committee Meetings.

Yes, much time will be spent in 2013 working on setting priorities, understanding details, creating a long-range financial plan, updating the Comprehensive and Capital Facilities Plans all the while looking to the long term health, public safety and viability of our City.

Keeping our City on solid ground has been and will be a subject of discussion by Council and staff with citizens. This discussion centers on five areas: the City's Comprehensive Plan, maintaining our infrastructure, keeping our community safe, development of the City's Long-range Financial Plan and on protection of Paine Field for Boeing and airplane manufacturing.

The City's **main priority** for the past six years and continues for 2013: **Keeping Our Community Safe**. During the past six years we strategically staffed our Police and Fire departments with the goal to fully provide efficient, fast and reliable emergency medical, fire response and law enforcement. The 2013 budget provides funding to maintain this goal.

The City's financial health and stability is intricately linked to these top priorities. In 2010, we officially launched the City's **Long-range Financial Planning Team**. In 2013, this team will continue reviewing and recommending updates to the City's financial policies and financial plan. Once complete, the Long-range Financial Plan will serve as the backbone to how the City's budget will be developed and deployed.

The 2013 budget plan recognizes that **2012 provided a reason for us to be cautiously optimistic as the economy** showed moderate signs of recovery. The slow economy recovery presented substantial challenges in developing the 2013 budget. The magnitude of the economic downturn resulted in a budget balancing strategy that included the use of limited expenditure increases, revenue increases, use of reserves and undertaking economic development initiatives.

2013 Budget Overview

Anticipated revenues for all funds total $21.2 million and are 11.6% lower than 2012. Total expenditures are $24.6 million and are $1.8 million lower than last year's budget.

Keeping with the City's fiscally conservative approach, the budget includes a City Reserve of $1,000,000 and an estimated ending General Fund balance of $3,553,592, which equals 27.5% of 2013 General Fund expenditures.

Requests for Information

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about this report, please contact the Finance Director, 11930 Cyrus Way, Mukilteo, WA 98275, (425) 263-8030.

Statement of Net Position
December 31, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$13,990,694	$1,326,451	$15,317,145
Accounts receivable, net	328,662	132,870	461,532
Taxes receivable	1,038,220	0	1,038,220
Prepaids	1,000	0	1,000
Deferred bond issuance costs	107,832	0	107,832
Investment in joint venture	267,759	0	267,759
Land	24,354,240	150,000	24,504,240
Right of way easements	10,580,181	0	10,580,181
Art Collection	183,890	0	183,890
Capital assets (net)	140,378,877	3,788,121	144,166,997
Construction in progress	5,190,661	740,108	5,930,769
TOTAL ASSETS	$196,422,015	$6,137,550	$202,559,565
LIABILITIES			
Accounts payable and other current liabilities	$1,095,843	$100,915	$1,196,758
Non-current liabilities			
Due within one year	1,134,758	0	1,134,758
Due in more than one year	11,173,418	2,623	11,176,041
TOTAL LIABILITIES	$13,404,019	$103,538	$13,507,557
NET POSITION			
Invested in capital assets net of related debt	169,325,548	$4,678,229	$174,003,777
Restricted for:			
Capital improvements	4,439,128	0	4,439,128
Emergency medical services	288,436	0	288,436
Transportation	227,089	0	227,089
Other	169,047	0	169,047
Unrestricted	8,568,748	1,355,783	9,924,531
TOTAL NET POSITION	$183,017,995	$6,034,012	$189,052,008

The accompanying notes are an integral part of the basic financial statement

Statement of Activities
For the year ended December 31, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants & Contributions	Program Revenues: Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Business-type Activities	Total
Primary government:							
Government activities:							
General government	$3,559,645	$1,438,693	$0	$0	($2,120,952)	$0	($2,120,952)
Public safety	9,014,962	921,312	31,921	0	($8,061,729)	0	($8,061,729)
Physical environment	285,518	406,730	37,555	38,542	$197,309	0	$197,309
Economic environment	1,044,990	0	0	0	($1,044,990)	0	($1,044,990)
Culture and recreation	2,276,222	560,702	0	223,924	($1,491,597)	0	($1,491,597)
Transportation	1,621,469	0	14,409	0	($1,607,060)	0	($1,607,060)
Interest on Debt	431,983	0	0	0	($431,983)	0	($431,983)
Total governmental activities	**18,234,790**	**3,327,437**	**83,884**	**262,466**	**(14,561,002)**	**0**	**(14,561,002)**
Business-type activities:							
Surface Water Management	1,628,344	1,280,618	842,342	0	0	494,616	494,616
Total business-type activities	**1,628,344**	**1,280,618**	**842,342**	**0**	**0**	**494,616**	**494,616**
Total primary government	**$19,863,133**	**$4,608,055**	**$926,227**	**$262,466**	**($14,561,002)**	**$494,616**	**($14,066,386)**
General Revenues:							
Property taxes					$6,183,673	$0	$6,183,673
Sales taxes					2,345,106	0	2,345,106
Utility taxes					2,820,757	0	2,820,757
Fuel taxes					417,971	0	417,971
Excise taxes					1,010,890	0	1,010,890
Hotel/Motel taxes					208,509	0	208,509
Interest and investment earnings					32,860	3,088	35,948
Miscellaneous					699,760	0	699,760
Total general revenues and transfers					**13,719,526**	**3,088**	**13,722,613**
Change in net position					(841,477)	497,704	(343,773)
Net position at beginning of year					183,859,473	5,536,308	189,395,781
Net position at end of year					**$183,017,996**	**$6,034,012**	**$189,052,009**

The accompanying notes are an integral part of the basic financial statement

Balance Sheet - Governmental Funds

December 31, 2012

	General Fund	Recreation & Cultural Services	Hotel/Motel Lodging Tax	Emergency Medical Services	Real Estate Excise Tax I Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	$5,224,245	$251,095	$211,420	$226,716	$3,763,601	$1,415,022	$11,092,100
Receivables, net							
Accounts Receivable	154,755	7,919	0	128,029	0	37,959	328,662
Taxes Receivable	898,897	0	27,268	10,303	32,991	68,761	1,038,220
Interfund Loans Receivable	0	0	0	0	93,000	0	93,000
Prepayments	1,000	0	0	0	0	0	1,000
TOTAL ASSETS	**$6,278,897**	**$259,014**	**$238,688**	**$365,048**	**$3,889,592**	**$1,521,743**	**$12,552,982**
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	$169,267	$4,105	$2,000	$12,288	$12,920	$18,850	$219,430
Wages Payable	387,813	24,861	0	64,324	0	13,977	490,974
Interfund Loans Payable	0	0	142,569	0	0	93,000	235,569
Deposits Payable	106,966	49,028	0	0	0	0	155,994
Deferred Revenue	12,600	160,628	0	0	0	0	173,228
Other Accrued Liabilities	214	0	0	0	0	0	214
TOTAL LIABILITIES	**$676,860**	**$238,622**	**$144,569**	**$76,612**	**$12,920**	**$125,828**	**$1,275,410**
Fund Balance:							
Nonspendable	$1,000	$0	$0	$0	$0	$0	$1,000
Restricted	66,296	0	94,118	288,436	3,876,673	1,212,146	5,537,669
Committed	3,693,259	0	0	0	0	0	3,693,259
Assigned	0	20,393	0	0	0	183,769	204,162
Unassigned	1,841,482	0	0	0	0	0	1,841,482
TOTAL FUND BALANCES	**5,602,037**	**20,393**	**94,118**	**288,436**	**3,876,673**	**1,395,915**	**11,277,571**
TOTAL LIABILITIES AND FUND BALANCES	**$6,278,897**	**$259,014**	**$238,688**	**$365,048**	**$3,889,592**	**$1,521,743**	**$12,552,981**

The accompanying notes are an integral part of the basic financial statement

Reconciliation - Balance Sheet of Governmental Funds to the Statement of Net Position
December 31, 2012

Total governmental fund balances	11,277,571
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.	
Land	24,354,240
Right of way easements	10,580,181
Art Collection	183,890
Construction in progress	5,190,661
Buildings	27,932,008
Improvements other than buildings	8,694,679
Machinery and equipment - General Government	4,814,147
Infastructure	264,661,136
Less: Accumulated Depreciation	(167,126,892)
Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds.	
Investment in Joint Venture	267,759
Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	
These long-term liabilities consist of:	
Bonds Payable (net): includes Deferred Bond Premium	(11,470,133)
Deferred charge for issuance costs (amortized over life of bond)	107,832
Other post-employment benefits	(125,515)
Compensated absences	(712,528)
Internal service fund is used by management to charge the costs of equipment rental to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	4,388,961
Net position of governmental activities	**183,017,996**

The accompanying notes are an integral part of the basic financial statement

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

For the year ended December 31, 2012

	General Fund	Recreation & Cultural Services	Hotel/Motel Lodging Tax	Emergency Medical Services	Real Estate Excise Tax I Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	$9,837,878	$0	$208,509	$1,482,695	$321,418	$362,828	$12,213,328
Licenses and Permits	1,228,244	668	0	0	0	0	1,228,912
Intergovernmental Revenues	455,257	0	0	0	0	468,930	924,187
Charges for Services	745,561	174,683	0	224,763	0	319,173	1,464,181
Fines and Forfeitures	192,032	0	0	0	0	0	192,032
Miscellaneous	230,428	244,961	460	269	8,601	86,128	570,848
TOTAL REVENUES	**$12,689,400**	**$420,313**	**$208,969**	**$1,707,727**	**$330,019**	**$1,237,060**	**$16,593,487**
EXPENDITURES							
Current							
General Government Services	$2,663,447	$0	$0	$0	$0	$0	$2,663,447
Public Safety	6,848,415	0	0	1,854,610	0	2,128	8,705,153
Physical Environment	210,174	0	0	0	0	79,923	290,097
Transportation	0	0	0	0	0	999,331	999,331
Economic Environment	940,552	0	101,120	0	0	0	1,041,672
Culture and Recreation	595,935	649,318	0	0	0	0	1,245,253
Debt Service							
Principal	0	0	0	0	0	480,000	480,000
Interest	0	0	0	0	0	425,513	425,513
Capital Outlay	156,677	0	0	9,927	329,027	499,036	994,668
TOTAL EXPENDITURES	**$11,415,200**	**$649,318**	**$101,120**	**$1,864,537**	**$329,027**	**$2,485,932**	**$16,845,134**
Excess of Revenues over (under) Expenditures	$1,274,200	($229,005)	$107,849	($156,810)	$992	($1,248,873)	($251,647)
OTHER FINANCING SOURCES (USES):							
Transfers In	$0	$234,400	$5,000	$0	$0	$1,766,506	$2,005,906
Transfers Out	(2,094,075)	0	(29,400)	0	(835,500)	(461,506)	(3,420,481)
Sale of Capital Assets	0	0	0	0	0	100,747	100,747
TOTAL OTHER FINANCING	**($2,094,075)**	**$234,400**	**($24,400)**	**$0**	**($835,500)**	**$1,405,747**	**($1,313,828)**
Net Change in Fund Balances	(819,875)	5,395	83,449	(156,810)	(834,508)	156,874	(1,565,475)
Fund Balances - Beginning	6,421,912	14,998	10,669	445,246	4,711,180	1,239,041	12,843,046
FUND BALANCES - ENDING	**$5,602,037**	**$20,393**	**$94,118**	**$288,436**	**$3,876,673**	**$1,395,915**	**$11,277,571**

The accompanying notes are an integral part of the basic financial statement

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – to the Statement of Activities
For the year ended December 31, 2012

Net change in fund balances - total governmental funds	(1,565,475)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives.	
Capital outlays	994,668
Current year depreciation	(2,346,345)
Net receipt and disposal of fixed assets	171,146
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.	
Change in other post-employment benefits payable	(16,230)
Change in compensated absences payable	157,870
Depreciation of Investment in Joint Venture	(11,500)
Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of assets.	
Principal payments	480,455
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 governmental funds.	
Amortization of bond issuance costs	(6,470)
Amortization of bond premium	17,408
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds are reported with governmental activities.	1,282,996
Change in net position of governmental activities	**(841,477)**

The accompanying notes are an integral part of the basic financial statement

Statement of Net Position
Proprietary Funds
December 31, 2012

	Business Activities - Enterprise Funds	Governmental Activities
	Surface Water Management Fund	Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents	$1,326,451	$2,898,594
Accounts receivable	132,870	0
Interfund loans receivable	0	142,569
Total Current Assets	1,459,321	3,041,163
Noncurrent assets:		
Land	150,000	0
Construction in Progress	740,108	25,542
Capital assets, net		
Buildings	0	14,234
Other improvements	3,654,208	8,040
Machinery and equipment	133,912	1,355,984
Total Noncurrent Assets	4,678,229	1,403,800
TOTAL ASSETS	**$6,137,550**	**$4,444,963**
LIABILITIES		
Current Liabilities		
Wages payable	$68,658	$17,459
Accounts payable	32,256	38,543
Total Current Liabilities	100,915	56,002
Noncurrent Liabilities		
Compensated Absences	2,623	0
Total Noncurrent Liabilities	2,623	0
TOTAL LIABILITIES	**$103,538**	**$56,002**
NET POSITION		
Invested in Capital Assets	4,678,229	1,403,800
Unrestricted	1,355,783	2,985,161
TOTAL NET POSITION	**$6,034,012**	**$4,388,961**

The accompanying notes are an integral part of the basic financial statement

Statement of Revenues, Expenditures and Changes in Net Position
Proprietary Funds
For the year ended December 31, 2012

	Business Activities - Enterprise Funds Surface Water Management Fund	Governmental Activities Internal Service Funds
OPERATING REVENUE:		
Charges for services	$1,262,267	$457,740
Intergovernmental services	18,351	38,542
Miscellaneous	842,342	10,863
TOTAL OPERATING REVENUE	**$2,122,960**	**$507,144**
OPERATING EXPENSES:		
Personnel services	$577,253	$128,509
Supplies	30,037	34,453
Other services and charges	276,427	282,703
Intergovernmental services	419,309	0
Depreciation	325,318	196,439
TOTAL OPERATING EXPENSES	**$1,628,344**	**$642,104**
Operating Income (Loss)	494,616	(134,959)
NON-OPERATING REVENUE (EXPENSES):		
Investment income	3,088	3,381
TOTAL NON-OPERATING REVENUE (EXPENSES)	**$3,088**	**$3,381**
Income (Loss) Before Transfers	497,704	(131,579)
Transfers in	0	1,414,575
Change in Net Position	497,704	1,282,996
NET POSITION BEGINNING	5,536,308	3,105,965
NET POSITION ENDING	**$6,034,012**	**$4,388,961**

The accompanying notes are an integral part of the basic financial statement

Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2012

	Business Activities - Enterprise Funds	Governmental Activities
	Surface Water Management Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	$2,125,450	$496,538
Payments to suppliers	(680,826)	(279,320)
Payments to employees	(577,253)	(128,509)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$867,372**	**$88,709**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers (to)/from other funds	0	1,414,575
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	**$0**	**$1,414,575**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds of interfund loan	0	45,000
Acquisition and construction of capital assets	(1,278,556)	(368,304)
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	**($1,278,556)**	**($323,304)**
CASH FLOW FROM INVESTING ACTIVITIES:		
Investment income	3,088	3,381
NET CASH PROVIDED BY INVESTING ACTIVITIES	**$3,088**	**$3,381**
Net Increase (Decrease) in Cash and Cash Equivalents	(408,097)	1,183,361
Cash and Cash Equivalents, January 1	1,734,548	1,715,233
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$1,326,451**	**$2,898,594**
Current Cash and Cash Equivalents	1,326,451	2,898,594
CASH AND CASH EQUIVALENTS, DECEMBER 31	**$1,326,451**	**$2,898,594**
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	494,616	(134,959)
Adjustments to Reconcile Operating Income to Net		
Gain (Loss) on Sale of Assets	0	(10,607)
Depreciation	325,318	196,439
Change in Current Assets and Liabilities		
(Increase) decrease in receivables	2,490	0
Increase (decrease) in wages payable	20,938	15,291
Increase (decrease) in accounts payable	24,010	22,546
TOTAL ADJUSTMENTS	**372,756**	**223,669**
NET CASH PROVIDED BY OPERATING ACTIVITIES	**867,372**	**88,709**

The accompanying notes are an integral part of the basic financial statement

Statement of Fiduciary Net Position
Fiduciary Funds

December 31, 2012

	Agency Funds
ASSETS	
Cash and cash equivalents	33,096
TOTAL ASSETS	33,096
LIABILITIES	
Checks Payable	334
Due to State - Building Code Fees	1,935
Leasehold Excise Tax Payable	7,517
Due to State - Forfeits & Seizures	401
Sales and Use Tax Payable	(244)
Deposits	23,153
TOTAL LIABILITIES	33,096

The accompanying notes are an integral part of the basic financial statement

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

Joint Ventures

The City has entered into a single joint venture with Snohomish County and other local governments in the Snohomish County Emergency Radio System. See Note No. 16 *Joint Ventures* for additional information.

B. Government-Wide and Fund Financial Statements

The **government-wide financial statements** (i.e., the statement of net position and the statement of activities) report information all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate f**und financial statements** are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The fiduciary fund financial statements have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are earned by December 31 (all eligibility requirements have been met) and the revenue is expected to be collected within 60 days after year-end. Expenditures are recorded when the related debt is incurred, except for unmatured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

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

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

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

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

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund includes administration, finance, police, fire, planning and community development, parks maintenance, and public works and engineering management.

The **Recreation and Cultural Services Center Fund** receives a transfer from the General Fund as well as Community Center activities fees and rental revenues, and funds the expenditures for the operations and maintenance of the Community Center building and programs.

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

The **Emergency Medical Services Fund** receives tax revenues from a voter approved tax levy to fund advanced life support [ALS] services.

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

The City reports the following proprietary fund:

The **Surface Water Management Fund** accounts for the revenues and expenditures 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 nonoperating revenues and expenses.

Additionally, the City reports the following funds:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

The **Street Fund** receives a transfer from the General Fund, in addition to 68.14% of the Motor Vehicle Fuel Excise Tax (gas tax) received. These revenues are used for costs related to street maintenance.

The **Arterial Street Fund** receives 31.86% of the Motor Vehicle Fuel Excise Tax (gas tax), and may be used for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets.

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

The **Limited Tax General Obligation Bond Fund** receives revenues from transfers from the Real Estate Excise Tax Funds, and is used to pay principal and interest on the $12,585,000 in bonds issued in 2009.

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

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

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

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

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

Internal Service Funds are used when a fund provides services for other departments and charges the departments for those services.

The **Equipment Replacement Fund** maintains funds set aside per a detailed equipment replacement schedule for all capital equipment owned by the City. Departments are charged an annual fee for the purpose of replacing capital equipment used by the department.

The **Facilities Maintenance Fund** receives revenues from a transfer from the General Fund, which is used for expenses related to the maintenance of City facilities.

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

The **Treasurer's Suspense Fund** is used to report assets which are held in an agency capacity for others.

D. Budgetary Information

1. Scope of Budget
   Annual appropriated budgets are adopted at the fund level for general, special revenue, debt service and capital project funds, on the modified accrual basis of accounting. Budgets for capital project funds are adopted at the level of the individual project and are shown in the financial statements on an annual basis. The financial statements contain original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

   Appropriations lapse at year-end. If unused funds 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.

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 expenditures 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 appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearings.

3. Excess of Expenditures over Appropriations
   There has been no material violations of finance related legal or contractual provisions in any major City fund.

4. Deficit Fund Balances
   At December 31, 2012, there were no funds with deficit fund balances.

E. Assets, Liabilities, Fund Balance, Net Position or Equities

1. Cash and Cash Equivalents
   It is the City's policy to invest all temporary cash surpluses. At December 31, 2012, the City had $13,540,101 in the Washington State Local Government Investment Pool. This investment is considered to be a cash equivalent as it is available on demand and can be liquidated to meet daily cash flow needs. The interest on this investment is prorated to the various funds.

   For purposes of the statement of cash flows, the City considers short-term investments (including restricted assets) in the State Treasurer's Investment Pool and any other investment with a maturity of three months or less at acquisition date to be cash equivalents. For additional information see Note No. 3, *Deposits and Investments.*

2. Investments See Deposits and Investments Note No 3.

3. Receivables
   Taxes receivable consist of property taxes and related interest and penalties. (See Note 4 *Property Taxes*) Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

   Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts earned for which billings have not been prepared.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable
   Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as interfund loans receivable and payable. (See Note 13 *Interfund Balances and Transfers*).

5. Inventories and prepaid items
   Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased.

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets and Liabilities
   Certain assets and related liabilities may be subject to externally imposed restrictions and would accordingly be reported as restricted. There were no restricted assets or liabilities for the current reporting year.

7. Capital Assets (See Capital Assets Note No. 5).
   Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than $5,000 ($10,000 for infrastructure) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   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. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful life (Years)
Buildings and improvements	5-100
Storm drainage systems	6 - 75
Street system	15 - 51
Park facilities and streetscape	30
Streetlights and traffic control devices	40
Equipment	3-20
Furniture and fixtures	3-20
Vehicles	3-30
Computers/software	3

8. Compensated Absences
   Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation is accrued when incurred in the government-wide and proprietary fund financial statements. Vacation pay, which may be accumulated up to (2) years of allowed vacation, is payable upon resignation, retirement or death. Sick pay is payable upon resignation, retirement or death. Employees with the required length of service may receive cash payment for all accumulated sick leave up to the restricted limits as follows:

Years of Service	**% Paid**
Less Than 5 Years	33.33%
Between 5 and 10 Years	66.67%
More than 10 Years	100.00%

9. Other Accrued Liabilities
   These accounts consist of accrued wages and accrued employee benefits.

10. Long-term Debt
    See Long-Term Debt Note No. 8.

11. Deferred Revenues
    Includes amounts received but not yet earned.

12. Governmental Fund Balance Classifications
    The City has implemented the provisions of GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions for the 2011 reporting year. This Statement requires governmental fund balances to be reported in five classifications – nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balances are those not in a spendable form (such as inventories) 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. Assigned fund balances are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance has not been restricted, committed, or assigned to a specific purpose within the general fund.

    The details of fund balance classifications for the general fund as reported on the Balance Sheet – Governmental Funds are as follows:

Nonspendable - Prepayment		1,000
Restricted:		
* Health Self-Insured Administration Reserves, as required by Washington State Administrative Code		66,296
Committed:		
* Set aside for the payment of LEOFF Plan 1 insurance premiums and medical expenses	127,723	
* Technology Replacement Reserve	119,125	
* Contingency Fund Reserve	1,000,000	
* Unemployment Compensation Reserve	40,488	
* Set aside to fund legal and other costs to oppose expansion of the Paine Field Airport	86,683	
* General Fund Operating Reserve	2,319,240	3,693,259
Unassigned		1,841,482
Total General Fund Balance		5,602,037

The details of fund balance classifications for the major special revenue funds as reported on the Balance Sheet – Governmental Funds are as follows:

	Restricted	Assigned
Recreation & Cultural Services Fund:		
For use in recreational and cultural activities		20,393
Hotel/Motel Lodging Tax Fund		
For use in the promotion of tourism	94,118	
Emergency Medical Services Fund		
Voter approved tax levy revenues restricted for emergency medical services	288,436	
Real Estate Excise Tax I		
Real estate excise taxes restricted by law for capital projects	3,876,673	
	4,259,227	20,393

The details of fund balance classifications for the other governmental funds as reported on the Balance Sheet – Governmental Funds are as follows:

	Restricted	Assigned
Seizure and forfeiture of proceeds from the sale of illegal drugs, use is restricted by state law	23,932	
Motor vehicle fuel excise tax revenues restricted for construction, improvement or repair of streets	134,372	
Restricted bond proceeds	398,668	
Park mitigation fees restricted for park development	(56,505)	
Transportation impact fees restricted for transportation facilities	245,656	
Real estate excise taxes restricted by law for capital projects	373,305	
Assigned for maintenance of streets	92,717	
Assigned for construction of city facilities		183,769
	1,212,146	183,769

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

F. Other

1. Use of Estimates
   The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position/balance sheet and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

2. Adoption of new GASB Pronouncements
   The City implemented the following GASB Pronouncements for the fiscal year ended December 31, 2012:
   - Statement No. 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
   - Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

Note 2 – Stewardship, Compliance and Accountability

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

Contingency Fund Reserve: $1,000,000 to provide a financial cushion to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods or to provide funds in the event of major unplanned expenditures the City could face as a result of landslides, earthquake or other natural disaster.

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. At December 31, 2012 the balance of this reserve is $2,319,240

Hotel/Motel Lodging Tax Reserves: The City maintains a Hotel/Motel Lodging Tax Reserve in an amount equal to one prior complete year's revenues in ending fund balance. The fund balance of the Hotel/Motel Lodging Tax Fund is reported as restricted - allowable expenditures are prescribed by state law.

Technology Replacement Reserves: For the replacement of entity-wide computer hardware, software, or telephone equipment identified in the City's Technology Replacement listing. The required level of reserve is equivalent to each year's scheduled replacement costs. At December 31, 2012, the balance of this reserve is $119,125.

Health Self-Insured Administration Reserves: To provide Washington State mandated reserves for the City's self-insured dental and vision benefits for City employees, equivalent to 16 weeks of budgeted expenditures. At December 31, 2012, the balance of this reserve is $65,938.

Equipment and Vehicle Replacement Reserves: To fund the replacement of vehicles and equipment identified on the City's equipment replacement listing. The required level of reserve equals each year's scheduled replacement costs. Contributions are made through assessments to the using funds and are maintained on a per asset basis. At December 31, 2012, ending net position in the Equipment Replacement Fund is $4,388,961.

Surface Water Management Fund Reserves: The City maintains an operating reserve within the Surface Water Management Fund in an amount equal to no less than 20% of budgeted operating revenues. At December 31, 2012, ending net position in this fund is $6,034,012.

Note 3 – Deposits and Investments

Deposits
The City's deposits and certificates of deposit 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
As of December 31, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
12-Month Certificate of Deposit (CD)	$1,002,310	1.0
Money Market Checking Account	604,924	0.0
Local Government Investment Pool	13,540,101	0.0
Total Fair Value	**$15,147,335**	

The Local Government Investment Pool (LGIP) is operated by the Washington State Treasurer and is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The pool is subject to oversight by the Washington State Auditor's Office and also subject to a financial audit by an independent auditor.

All investments in the LGIP are recorded at cost which is equivalent to fair value. The fair value of the City's position in the pool is the same as the value of the pool shares.

Interest Rate Risk
The City manages its exposure to declines in fair values by limiting the weighted average of 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 (5) years, if the maturity of such investment is made to coincide as nearly as practicable with the expected use of funds.

Credit Risk
As required by state law, all investments of the City's fund are obligations of the U.S. Government, U.S. agency issues, Obligations of the State of Washington, repurchase agreements, prime banker's acceptances, the Washington State Local Government Investment Pool, and time certificates of deposit with authorized Washington State banks.
The Washington State Local Government Investment Pool is operated in a manner consistent with the SEC's Rule 2a-7 of the Investment Act of 1940, and is unrated.

Custodial Credit Risk – Deposits
In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All City deposits are insured by the Federal Depository Insurance (FDIC) up to $250,000. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the State of Washington for amounts over $250,000.

The PDPC is a statutory authority established under Washington State Law Revised Code of Washington (RCW) chapter 39.58. It constitutes of multiple financial institution collateral arrangement that provides for additional assessments against members of the pool on a pro rata basis up to a maximum of 10 percent of each institution's public deposits. Provisions of RCW 39.85, section 60 authorize the PDPC to make pro-rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss.

Custodial Credit Risk – Investments

For investments, this is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For all of 2012, the City invested only in the Washington State Local Government Investment Pool.

Concentration of Credit Risk

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

The maximum to be invested in any one issuer is as follows:

Security Type	Portfolio Max.
Certificate of Deposit (CD)*	90%
U.S. Treasuries	90%
U.S. Agencies	90%
State of WA Bonds	20%
Local Gov't Bonds	10%
State Pool (LGIP)	100%

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

Financial Statements	Governmental Activities	Business-type Activities	Total Primary Govt.	Fiduciary Funds	Total
Cash and Cash Equivalents	$13,990,694	$1,326,451	$15,317,145	$33,096	$15,350,241
	$13,990,694	$1,326,451	$15,317,145	$33,096	$15,350,241

Note 4 – Property Taxes

As prescribed by GASB Statement No. 34, property taxes are recognized as revenue in the government-wide financial statements when an enforceable legal claim has arisen. Therefore, the City recognizes revenue and a receivable for the entire tax levy in the year it was levied. No allowance for uncollectible accounts is established because delinquent taxes are considered fully collectible. For governmental fund financial statements, the property tax revenues not collected within 30 days of the year ended are deferred.

The county treasurer acts as an agent to collect property taxes in the county for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar	
January 1	Taxes are levied and become an enforcable 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.

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

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

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

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

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2012 follows:

Governmental Activities	2012 Beginning Balance	Increases	Decreases	2012 Ending Balance
Capital assets, not being depreciated:				
Land	24,454,988	0	(100,747)	24,354,240
Right of way	10,580,181	0	0	10,580,181
Art Collections	175,520	8,370	0	183,890
Construction in Progress	16,876,061	1,265,501	(12,950,902)	5,190,661
Total capital assets, not being depreciated:	52,086,750	1,273,871	(13,051,649)	40,308,972
Capital assets, being depreciated:				
Building	19,951,599	8,027,735	(33,092)	27,946,242
Other Improvements	7,150,449	1,624,124	(46,314)	8,728,260
Machinery and Equipment	6,660,988	2,783,862	(370,241)	9,074,609
Infrastructure	263,711,357	949,779	0	264,661,136
Total capital assets being depreciated:	297,474,393	13,385,500	(449,646)	310,410,247
Less accumulated depreciation for:				
Buildings	(4,098,736)	157,983	(803,244)	(4,743,997)
Improvements other than buildings	(1,825,398)	154,830	(734,919)	(2,405,487)
Machinery and Equipment	(4,163,155)	485,296	(963,032)	(4,640,891)
Infrastructure	(157,788,452)	9,402,350	(9,854,893)	(158,240,995)
Total accumulated depreciation:	(167,875,740)	10,200,459	(12,356,089)	(170,031,371)
Total capital assets, being depreciated, net:	129,598,653	23,585,959	(12,805,735)	140,378,876
Governmental activities capital assets, net:	181,685,403	24,859,829	(25,857,384)	180,687,847

Capital assets of the internal service funds are included in the Governmental Activities table above. Detailed activity information for these assets is as follows:

Internal Service Capital Assets	2012 Beginning Balance	Increases	Decreases	2012 Ending Balance
Capital assets, not being depreciated:				
Construction in Progress	-	25,542	-	25,542
Capital assets, being depreciated:				
Buildings	3,264	36,512	(25,542)	14,234
Other Improvements	7,190	850	0	8,040
Machinery & Equipment	4,142,257	358,286	(240,081)	4,260,462
Less accumulated depreciation for:				
Machinery & Equipment	(2,931,434)	269,693	(242,737)	(2,904,478)
Internal Services Assets, Net:	1,221,277	690,882	(508,360)	1,403,800

Business-type Activities	**2012 Beginning Balance**	**Increases**	**Decreases**	**2012 Ending Balance**
Capital assets, not being depreciated:				
Land	150,000	0	0	150,000
Construction in Progress	333,513	406,596	0	740,108
Total capital assets, not being depreciated:	483,513	406,596	0	890,108
Capital assets, being depreciated:				
Other Improvements	2,585,807	860,136	0	3,445,943
Other Improvements - Contractor Contributions	2,805,470	0	0	2,805,470
Machinery and Equipment	213,468	6,196	0	219,664
Total capital assets being depreciated:	5,604,745	866,331	0	6,471,076
Less accumulated depreciation for:				
Other Improvements	(1,714,411)	(270,071)	0	(1,984,483)
Other Improvements Contractor Contributions	(575,034)	(37,687)	0	(612,722)
Machinery and Equipment	(68,192)	(17,560)	0	(85,752)
Total accumulated depreciation:	(2,357,638)	(325,318)	0	(2,682,956)
Total capital assets, being depreciated, net:	3,247,107	541,014	0	3,788,121
Business activities capital assets, net:	3,730,620	947,609	0	4,678,229

Depreciation Expense by Function

GOVERNMENTAL ACTIVITIES		
General government		461,495
Public safety		417,905
Economic environment		19,914
Culture and recreation		1,019,608
Transportation		623,863
Total depreciation expense - Governmental activities	$	2,542,784
BUSINESS-TYPE ACTIVITIES		
Surface Water		325,318
Total depreciation expense - Business-type activities		$325,318

Change in Accounting Principle

For the year ended December 31, 2012, the City implemented the provisions of GASB Statement No. 51 Accounting and Financial Reporting for Intangible Assets. Right of way easements with a value of $10,580,181 were recorded, resulting in an increase in the beginning balance of capital assets, not being depreciated, for governmental activities.

Construction Commitments

The City has active construction projects as of December 31, 2012. At year end, the City's commitments under construction contracts are as follows:

		Spent to Date	Remaining Commitment
Governmental			
Interpretive Signage - Interpretive Signage Plan	$	6,848	1,500
Japanese Gulch Trail		20,929	10,000
61st Place Retaining Wall Failure		142,339	82,500
Park Street Bulkhead Phase I		9,984	100,000
76th St Sidewalk Construction		2,039	115,000
SR 526 Bike-Ped Path to Boeing		55,552	225,500
Business Type			
2nd Street Storm System Realignment		11,608	30,000
Decant Station Roof/Vault		15,964	118,000
61st Street Culvert Replacement		35,677	210,000
Smuggler's Gulch Stormwater Project		140,507	928,000
	$	441,448	1,820,500

Note 6 – Retirement and Pension Plans

Substantially all City of Mukilteo full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

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

Plan Description
The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to but not yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	262,285

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with 33 Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00 %****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	$8,998	$181,517	$45,257
2011	$6,418	$157,861	$44,076
2010	$5,343	$137,768	$33,858

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

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

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

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations.

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

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

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

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

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

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

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's allowance.

LEOFF Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of two percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months). Plan 2 members who retire prior to the age of 53 receive reduced benefits. Benefits are actuarially reduced for each year that the benefit commences prior to age 53 and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

GASB Statement 27 does not require the number of participating employers and members to be presented in the notes to the financial statements. The information has been provided here so it can be included in the notes if desired.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is two percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, unless the disability is duty-related, and to reflect the choice of a survivor option. 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. A catastrophic disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are severely disabled in the line of duty and incapable of future substantial gainful employment in any capacity.

Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

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

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

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while servicing in the uniformed services may apply for interruptive military service credit. Should any such member die during this active duty, the member's surviving spouse or eligible child(ren) may request service credit on behalf of the deceased member.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries.

Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, if found eligible by the Department of Labor and Industries.

There are 374 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	9,647
Terminated Plan Members Entitled to but not yet Receiving Benefits	782
Active Plan Members Vested	13,420
Active Plan Members Non-vested	3,656
Total	27,505

Funding Policy

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. LEOFF Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of LEOFF Plan 2 in accordance with the requirements of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%.

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

	LEOFF Plan 1	LEOFF Plan 2
2012	$0	$260,068
2011	$0	$250,820
2010	$0	$246,416

Note 7 – Risk Management

The City is exposed to various loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and natural disasters. 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 150 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are $4 million per occurrence self insured layer, and $16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are $20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to $500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

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

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

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.

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

Each member contributes an appropriate amount each year to pay premiums and claims. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The basis for estimating the liabilities for unpaid claims includes the effects of specific, incremental claim adjustment expenses, salvage, subrogation, and other allocated adjustment expenses. There have been no claims in excess of the City's insurance coverage during the last four years.

Note 8 – Long-term Debt

The City may issue two types of general obligation bonds, Limited Tax General Obligation bonds (LTGO) and Unlimited Tax General Obligation bonds (UTGO) to provide funding for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. During 2009 the City authorized the issuance of a Limited Tax General Obligation (LTGO) bond in the amount of $12,585,000 for construction of a new community center. This debt was issued with a premium of $348,159 and issuance costs of $129,398 (issuance costs include Underwriter's discount, Bond counsel fees, rating agency fees, registration costs, printing expenses and any miscellaneous costs deemed necessary), to be amortized over life of bond. This debt has been issued for the general government and will be repaid with Real Estate Excise Taxes (REET) revenues.

At December 31, 2012, the city had the following general obligation bonds outstanding:

Purpose	Original Amount Issued	Date of Original Issue	Date of Final Maturity	Interest Rates	Amount of Installments	Balance 12/31/12
General Government						
2009 LTGO Bonds - Community Center	$ 12,585,000	09/10/09	12/01/29	3.54%	$84,301 - $909,313	$ 11,180,000
	$ 12,585,000					$ 11,180,000

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

Year Ending December 31	Governmental Activities Principal	Interest	Total Requirements
2013	495,000	410,813	905,813
2014	510,000	395,962	905,962
2015	525,000	382,613	907,613
2016	545,000	363,962	908,962
2017	560,000	347,613	907,613
2018-2022	3,105,000	1,433,863	4,538,863
2023-2027	3,730,000	800,700	4,530,700
2028-2029	1,710,000	103,200	1,813,200
Total	$ 11,180,000	$ 4,238,726	$ 15,418,726

Revenue Bonds

The City may also issue revenue bonds to provide financing for the capital programs for the City's business activities. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. No revenue bonds are outstanding.

Rebatable Arbitrage

Arbitrage occurs when the City invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. At the fund level, the City recognizes this liability only when it is due and payable. The City had no arbitrage excess earnings liability in 2012.

Note 9 – Leases

Operating Leases
During 2011 the city entered into a non-cancelable operating lease for a police department vehicle. The lease payments totaled $5,132 for this year. The final lease payment will be made in 2015. The future minimum lease payments are as follows:

Year Ending December 31, 2012	Amount
2013	5,455
2014	5,455
2015	5,455
Total	$ 16,365

Note 10 – Changes in Long-Term Liabilities

For the year ended December 31, 2012, changes in long-term liabilities are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year	Due Beyond One Year
Governmental Activities						
Bonds Payable:						
Series 2009 Bonds, $12,585,000 issued	$11,660,000	$0	($480,000)	$11,180,000	495,000	$10,685,000
Unamortized bond premium	307,540	0	(17,408)	290,133	17,408	$272,725
Total bonds payable:	11,967,540	0	(497,408)	11,470,133	512,408	10,957,725
Other post-employment benefits	109,285	16,230	0	125,515	0	$125,515
Compensated absences	870,398	0	(157,870)	712,528	611,269	$101,259
Governmental activity long-term liabilities:	$12,947,224	$16,230	($655,278)	$12,308,176	$1,123,677	$11,184,499
Business-Type Activities						
Compensated absences	$29,658	$0	($5,880)	$23,778	$21,155	$2,623
Business-type activity long-term liabilities:	$29,658	$0	($5,880)	$23,778	$21,155	$2,623

The costs of other post-employment benefits are charged to the General Fund. The costs of compensated absences for governmental activities are charged in the same manner as employee salaries, and are expenditures of the General, Street, Recreation and Cultural Services Center, and Emergency Medical Services funds.

Note 11 – Contingencies and Litigation

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

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

Note 12 – Interfund Balances and Transfers

Transactions that would be treated as revenues or expenditures if they involved organizations external to the governmental unit are accounted for as revenues or expenditures in the funds involved. Transactions which constitute reimbursements of a fund for expenditures initially made from that fund, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of the expenditure in the fund that is reimbursed. Transfers between funds are included in the results of both governmental and proprietary funds (as other sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds).
Direct overhead costs charged by the General Fund to the Surface Water Management Fund are not eliminated from the Statement of Activities.

Transfers to support the operations of other funds are recorded as "Transfers in" or “Transfers out” from the appropriate funds and are classified with "Other Financing Sources or Uses".

Loans between funds are classified as interfund loans receivable from and payable to other funds on the governmental funds balance sheet. As of December 31, 2012, there was an interfund loan from the Equipment Replacement Fund to the Hotel/Motel Lodging Tax Fund for the purchase of a visitor’s center building. Details of interfund loan activity are presented in the table below.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. The City uses transfers to:

- Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
- Move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due,
- Use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund activity for 2012 year is as follows:

Transfers In		Transfers Out	
Street Fund	469,500	General Fund	469,500
Hotel/Motel Lodging Tax Fund	5,000	General Fund	5,000
Equipment Replacement Fund	1,014,575	General Fund	1,014,575
Facilities Maintenance Fund	400,000	General Fund	400,000
LTGO Bond Fund	835,500	REET	835,500
LTGO Bond Fund	69,800	REET 2	69,800
LTGO Bond Fund	391,706	Community Center Fund	391,706
Recreation & Cultural Services Fund	205,000	General Fund	205,000
Recreation & Cultural Services Fund	29,400	Hotel/Motel Lodging Tax Fund	29,400
Total Transfers In	**3,420,481**	**Total Transfers Out**	**3,420,481**

Interfund Loans Receivable		Interfund Loans Payable	
Equipment Replacement Reserve Fund		**Hotel/Motel Lodging Tax Fund**	
Interfund Loan Receivable - Beg. Bal.	187,569	Interfund Loan Payable - Beg. Bal.	187,569
Principal Repayment	(45,000)	Principal Repayment	(45,000)
Interfund Loan Receivable - End. Bal.	142,569	Interfund Loan Payable - End. Bal.	142,569
Real Estate Excise Tax I Fund		**Park Acquisition and Development Fund**	
Interfund Loan Receivable - Beg. Bal.	106,832	Interfund Loan Payable - Beg. Bal.	106,832
Principal Disbursement	93,000	Principal Disbursement	93,000
Principal Repayment	(106,832)	Principal Repayment	(106,832)
Interfund Loan Receivable - End. Bal.	93,000	Interfund Loan Payable - End. Bal.	93,000
Total Interfund Loans Receivable	**235,569**	**Total Interfund Loans Payable**	**235,569**

Note 13 – Receivables and Payable Balances

Receivables at December 31, 2012, are as follows:

Activities	Accounts Receivable	Taxes Receivable	Other	Total
Governmental Activities				
General Fund	154,755	898,897	$0	$1,053,651
Real Estate Excise Tax I Fund	0	32,991	93,000	125,991
Other Governmental Funds	173,907	106,333	0	280,239
Total Governmental	$328,662	$1,038,220	$93,000	$1,459,881
Business-type Activities				
Surface Water Fund	132,870	0	0	132,870
Internal Service Funds	0	0	142,569	142,569
Total Business-type	$132,870	$0	$142,569	$275,439

Payables at December 31, 2012, are as follows:

Activities	Accounts Payable	Wages Payable	Other	Total
Governmental				
General Fund	169,267	387,813	$0	$557,079
Real Estate Excise Tax I Fund	12,920	0	0	12,920
Other Governmental Funds	37,244	103,162	235,569	375,975
Total Governmental	$219,430	$490,974	$235,569	$945,974
Business-type Activities				
Surface Water Fund	32,256	68,658	2,623	$103,538
Internal Service Funds	38,543	17,459	0	56,002
Total Business-type	$70,799	$86,117	$2,623	$159,540

Note 14 – Segment Information for Enterprise Funds

The City has one enterprise fund, the Surface Water Management Fund. This fund currently has no bonded debt associated with it. All required segment information is disclosed on the face of the proprietary fund financial statements.

Note 15 – Joint Ventures

The City entered into a single joint venture with Snohomish County and other local governments in the establishment and operations of the Snohomish County Emergency Radio System (SERS). The purpose of the venture is to equip and operate a radio system primarily for the use of public safety agencies. Control of this joint venture is shared equitably by the controlling organizations. This entity is reported as a governmental joint venture. The City of Mukilteo's share of the assets and equity as of December 31, 2012 was $267,759.

The Snohomish County Emergency Radio System is considered a separate reporting entity. Each participant's share of authority is defined by the terms of the enabling charter. Control is represented by the City Council and Board of County Commissioners and is divided between the County and the participating cities. Separate financial statements can be obtained from Snohomish County.

Note 16 – Other Postemployment Benefit (OPEB) Plans

Plan Description
In addition to pension benefits, per state law, the City provides a defined benefit post retirement health care benefits to LEOFF I employees who are 50 years of age with twenty years of service or on disability leave or retirement. This system is a closed, single-employer, defined benefit pension system. The City pays 100% of the cost of medical insurance. Premera Blue Cross is the underwriter. After age 65, benefits are coordinated with Medicare. Any amount not paid by the underwriter is reimbursed by the City. Financial reporting for the LEOFF retiree healthcare plan is included in the City's Comprehensive Annual Financial Report.

Funding Policy
Funding for LEOFF retiree healthcare costs is provided entirely by the City as required by RCW. The City's funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation
The City's annual other postemployment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of twenty years as of June 30, 2009. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB. For 2012, the City has fully funded the OPEB obligation.

Annual required contribution	$56,772
Interest on net OPEB obligation	4,918
Adjustment to annual required contribution	(10,176)
Annual OPEB cost (expense)	51,514
Contributions made	(35,284)
Change in NPO	16,230
Net OPEB Obligation - Beginning of Year	109,285
Net OPEB Obligation - End of Year	$125,515

The City's OPEB costs, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	$52,002	54.2%	$28,177
12/31/2011	$56,302	58.2%	$32,770
12/31/2012	$51,514	68.5%	$35,284

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for the 2012 benefits was $609,708 and the actuarial value of the assets was $0 resulting in an UAAL of $609,708. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determing the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

Significant actuarial assumptions used in the valuation include:

- 5.0 percent investment return, compounded annually
- The medical inflation trend starts at 9.0% in 2007 and decreases to 5.0% in 2015. It remains at 5.0% after 2015
- The expected long-term care inflation trend is 4.5% for all years.

Required Supplementary Information

Condition Assessment and Preservation of Infrastructure Eligible for Modified Accounting Approach

Streets:

The City of Mukilteo has taken a pragmatic approach with pavement management practices associated with public streets. The City performed a city wide pavement condition assessment in 2007 and updated the Pavement Management Program (PMP). The Pavement Management Program provides a management tool to inventory street pavement, assess pavement condition, record historical surface improvements, forecast street budget requirements, and view impacts of funding on City-wide pavement condition over time. The PMP is also a tool for analyzing pavement conditions and recommending rehabilitation strategies based in funding levels. A major component of the PMP is the Pavement Condition Index (PCI). The City's surface rehabilitation strategy is based on PCI scores and the corresponding condition category. Streets with PCI scores over 90 are considered to be "excellent" condition and would require no resurfacing treatment. Streets with PCI scores from 70 to 89 are considered "very good", however, may require cracks to be sealed and a single chip seal surface treatment. Streets with scores from 50 to 69 are considered "good" and may require patching, crack sealing, single chip seal or double chip seal surface treatment. Streets with PCI scores between 25 and 49 are considered "poor" and generally require a thick asphalt overlay. Street with scores below 25 are "very poor" and are in need of surface reconstruction. The City completed a pavement condition assessment in 2007, and has scheduled one for Second Quarter 2014. A summary of the completed assessment is shown in the table below.

Table 1
Overall Pavement Condition Assessment 2007

Condition Rating	Miles	Percentage
Excellent	23.6	38.2%
Very Good	20.4	33.0%
Good	13.1	21.2%
Poor	4.8	7.6%
Very Poor	0	0.0%
Total	61.9	

The City street system is broken down into four functional classifications; Arterial, Urban Minor Arterial, Collector, and Residential. There is a State highway (SR 525) which is considered an arterial street that bisects the City: this surface is maintained by WSDOT. The entire pavement system within the City of Mukilteo is composed of approximately 61.9 miles of paved surface and is divided into 405 pavement management segments. To assist in planning the surfacing needs, the City streets were grouped by functional class (Arterial, Urban Minor Arterial, Collector, and Residential). The table below shows the City's pavement mileage by functional classification:

Table 2
Pavement Mileage by Functional Class

Functional Classification	Centerline Miles
Arterial [excluding SR 525 and SR 526]	1.3
Urban Minor Arterial	6.7
Collector	48.9
Residential	5.0
Total	61.9

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

shortened pavement life. Chip sealing restores the oxidized surface and seals the pavement to prevent water entrance. A chip seal also provides better traction than a normal asphalt street.
By chip sealing the expensive street resurfacing cycle is broken where pavement is allowed to degrade to the point that it must be ground off and replaced with new asphalt. The common scenario is that a newly paved street, after 7-10 years, will start developing cracks and be crack sealed. Then over the next 7-9 years it would further deteriorate and finally have to be replaced. Chip sealing replaces this cycle with pavement refreshment about 7-10 years into the life, a second chip seal around 14-16 years and a third one around 24-25 years. Sometime after 30 years the pavement can be ground and, possibly, the chip sealing process started over again.

Below is information on actual expenditures incurred in resurfacing and preserving the street system at or above the minimum acceptable condition level from 2008 to 2012.

Table 3
Street Preservation Expenditure History
Amounts in Thousands

Year	2012	2011	2010	2009	2008
Expended	$333,419	$354,860	$295,946	$321,618	$311,024

The budgeted amount is equivalent to the anticipated amount needed to resurface streets up to the recommended condition level. Under or over spending of budget amounts occurs when street projects are removed from the work schedule due to conflicts with other major construction work; lowering of priority due to cost considerations brought on by excessive bids or estimates or shortages of sufficient contractor bids; and through direction from elected officials.

The City of Mukilteo uses the State of Washington BARS system to track expenditures for capital projects such as street surfacing improvements.

City of Mukilteo, Washington
Budgetary Comparison Schedule
Combined General Funds
For the Fiscal Year ended December 31, 2012

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$9,853,566	$9,749,916	$9,837,878	$87,962
Licenses and Permits	$1,111,600	$1,111,600	$1,228,244	116,644
Intergovernmental Revenues	$391,450	$421,260	$455,257	33,997
Charges for Services	$523,650	$652,250	$745,561	93,311
Fines and Forfeitures	$212,000	$212,000	$192,032	(19,968)
Miscellaneous	$359,000	$261,080	$230,428	(30,652)
TOTAL REVENUES	**12,451,266**	**12,408,106**	**12,689,400**	**281,294**
EXPENDITURES				
Current				
General Government Services	2,792,950	2,864,580	2,663,447	(201,133)
Public Safety	6,859,020	6,991,775	6,848,415	(143,360)
Physical Environment	217,270	217,020	210,174	(6,846)
Transportation	84,000	0	0	0
Economic Environment	1,061,780	1,064,780	940,552	(124,228)
Culture and Recreation	667,160	664,645	595,935	(68,710)
Capital Outlay	214,062	213,432	156,677	(56,755)
TOTAL EXPENDITURES	**11,896,242**	**12,016,232**	**11,415,200**	**(601,032)**
Excess of Revenues over Expenditures	555,024	391,874	1,274,200	882,326
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	(1,095,000)	(2,094,075)	(2,094,075)	0
Debt Service	0	0	0	0
TOTAL OTHER FINANCING	**(1,095,000)**	**(2,094,075)**	**(2,094,075)**	**0**
Net Change in Fund Balances	(539,976)	(1,702,201)	(819,875)	882,326
Fund Balances - Beginning	6,011,080	6,011,080	6,421,912	410,832
FUND BALANCES - ENDING	**$5,471,104**	**$4,308,879**	**$5,602,037**	**$1,293,158**

City of Mukilteo, Washington
Budgetary Comparison Schedule
Recreation & Cultural Services Fund
For the Fiscal Year ended December 31, 2012

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$0	$0	$0	$0
Licenses and Permits	300	300	668	368
Charges for Services	127,150	147,150	174,683	27,533
Miscellaneous	201,700	221,510	244,961	23,451
TOTAL REVENUES	**329,150**	**368,960**	**420,313**	**51,353**
EXPENDITURES				
Current				
Public Safety	0	0	0	0
Economic Environment	0	0	0	0
Culture and Recreation	659,310	659,310	649,318	(9,992)
TOTAL EXPENDITURES	**659,310**	**659,310**	**649,318**	**(9,992)**
Excess of Revenues over Expenditures	(330,160)	(290,350)	(229,005)	61,345
OTHER FINANCING SOURCES (USES):				
Transfers In	205,000	234,400	234,400	0
Transfers Out	0	0	0	0
TOTAL OTHER FINANCING	**205,000**	**234,400**	**234,400**	**0**
Net Change in Fund Balances	(125,160)	(55,950)	5,395	61,345
Fund Balances - Beginning	208,930	208,930	14,998	(193,932)
FUND BALANCES - ENDING	**$83,770**	**$152,980**	**$20,393**	**($132,587)**

City of Mukilteo, Washington
Budgetary Comparison Schedule
Hotel/Motel Lodging Tax Fund
For the Fiscal Year ended December 31, 2012

	Budgeted Amounts			
	Original	**Final**	**Actual Amounts**	**Variance with Final Budget**
REVENUES				
Taxes	$170,000	$170,000	$208,509	$38,509
Licenses and Permits	0	0	0	0
Miscellaneous	400	400	460	60
TOTAL REVENUES	**170,400**	**170,400**	**208,969**	**38,569**
EXPENDITURES				
Current				
Public Safety	0	0	0	0
Economic Environment	100,400	100,400	101,120	720
TOTAL EXPENDITURES	**100,400**	**100,400**	**101,120**	**720**
Excess of Revenues over Expenditures	70,000	70,000	107,849	37,849
OTHER FINANCING SOURCES (USES):				
Transfers In	5,000	5,000	5,000	0
Transfers Out	0	0	(29,400)	(29,400)
TOTAL OTHER FINANCING	**5,000**	**5,000**	**(24,400)**	**(29,400)**
Net Change in Fund Balances	75,000	75,000	83,449	8,449
Fund Balances - Beginning	192,440	192,440	10,669	(181,771)
FUND BALANCES - ENDING	**$267,440**	**$267,440**	**$94,118**	**($173,322)**

City of Mukilteo, Washington
Budgetary Comparison Schedule
Emergency Medical Services Fund
For the Fiscal Year ended December 31, 2012

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Taxes	$1,612,000	$1,612,000	$1,482,695	($129,305)
Licenses and Permits	0	0	0	0
Charges for Services	234,800	234,800	224,763	(10,037)
Miscellaneous	2,400	2,400	269	(2,131)
TOTAL REVENUES	**1,849,200**	**1,849,200**	**1,707,727**	**(141,473)**
EXPENDITURES				
Current				
Public Safety	1,862,440	1,887,700	1,854,610	(33,090)
Economic Environment	0	0	0	0
Capital Outlay	42,088	42,088	9,927	(32,161)
TOTAL EXPENDITURES	**1,904,528**	**1,929,788**	**1,864,537**	**(65,251)**
Excess of Revenues over Expenditures	(55,328)	(80,588)	(156,810)	(76,222)
OTHER FINANCING SOURCES (USES):				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
TOTAL OTHER FINANCING	**0**	**0**	**0**	**0**
Net Change in Fund Balances	(55,328)	(80,588)	(156,810)	(76,222)
Fund Balances - Beginning	390,260	390,260	445,246	54,986
FUND BALANCES - ENDING	**$334,932**	**$309,672**	**$288,436**	**($21,236)**

Schedule of Employer Contributions without Advanced Funding

FY Ended Dec. 31	Annual OPEB Cost	Annual Contribution	Percent Contributed	Current Year OPEB Obligation	Cumulative OPEB Obligation
2008	$ 59,568	$ 26,136	43.9%	$ 33,432	$ 33,432
2009	$ 54,688	$ 26,192	47.9%	$ 28,496	$ 61,928
2010	$ 52,002	$ 28,177	54.2%	$ 23,825	$ 85,753
2011	$ 56,302	$ 32,770	58.2%	$ 23,532	$ 109,285
2012	$ 51,514	$ 35,284	68.5%	$ 16,230	$ 125,515

Schedule of Funding Progress of Other Post Employment Benefits

FY Ended Dec. 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability [UAAL]	Funded Ratio	Covered Payroll	UAAL as Percent of Covered Payroll
2008	1/1/2008	$ -	$ 639,736	$ 639,736	0%	$ -	0%
2009	1/1/2009	$ -	$ 604,602	$ 604,602	0%	$ -	0%
2010	1/1/2010	$ -	$ 590,466	$ 590,466	0%	$ -	0%
2011	1/1/2011	$ -	$ 648,973	$ 648,973	0%	$ -	0%
2012	1/1/2012	$ -	$ 609,708	$ 609,708	0%	$ -	0%

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

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

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

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Director of Local Audit	**Kelly Collins, CPA**
Deputy Director of State Audit	**Jan M. Jutte, CPA, CGFM**
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Deputy Director of Local Audit	**Mark Rapozo, CPA**
Deputy Director of Performance Audit	**Lou Adams, CPA**
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Deputy Director of Communications	**Thomas Shapley**
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