

Washington State Auditor's Office
Financial Statements Audit Report

City of Mukilteo
Snohomish County

Audit Period
January 1, 2006 through December 31, 2006

Report No. 1000168

Issue Date
November 24, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 24, 2008

City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements

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

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Snohomish County
January 1, 2006 through December 31, 2006**

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Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters in Accordance
with *Government Auditing Standards*

**City of Mukilteo
Snohomish County
January 1, 2006 through December 31, 2006**

City Council
City of Mukilteo
Mukilteo, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, Snohomish County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 2, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management and the Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 2, 2008

Independent Auditor's Report on Financial Statements

City of Mukilteo Snohomish County January 1, 2006 through December 31, 2006

Council
City of Mukilteo
Mukilteo, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mukilteo, Snohomish County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Mukilteo, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Municipal Facilities Fund and Real Estate Excise Tax Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of

management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 2, 2008

Financial Section

**City of Mukilteo
Snohomish County
January 1, 2006 through December 31, 2006**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2006

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2006

Statement of Activities – 2006

Balance Sheet – Governmental Funds – 2006

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2006

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Municipal Facilities Fund – 2006

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Real Estate Excise Tax Fund – 2006

Statement of Net Assets – Proprietary Funds – 2006

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2006

Statement of Cash Flows – Proprietary Funds – 2006

Statement of Net Assets – Fiduciary Funds – 2006

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2006

Notes to Financial Statements – 2006



CITY OF MUKILTEO

Management's Discussion & Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mukilteo presents this Management's Discussion and Analysis of its financial activities for the fiscal year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on significant issues while providing an overview of the City's financial activity.

Financial Highlights

- The assets of the City of Mukilteo exceeded liabilities as of December 31, 2006 by \$213.1 million. Approximately 18.1 million (8%) of this amount may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$1 million in fiscal year 2006.
- Governmental activity reported combined ending fund balances of \$207.8 million, a \$1.5 million decrease from the prior year. This decrease is primarily due to depreciation of capital assets.
- Business-Type funds reported ending fund balances of \$5.4 million, a \$.5 million increase from the prior year.
- The Fire Station Bonds principal of \$500,000 was paid off during the fiscal year, leaving the city with no outstanding bonded debt at year end.

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 **Government-wide Financial Statements** are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

The **Statement of Net Assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **Statement of Activities** presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, **regardless of the timing of related cash flows**. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**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 include Surface Water Management.

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

Fund Financial Statements are prepared using a grouping of related accounts (funds) 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 are used to account for essentially the same functions reported as **governmental activities** in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on **near-term inflows and outflows of spendable resources**, as well



CITY OF MUKILTEO

Management's Discussion & Analysis

as on **balances of spendable resources** available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for **governmental funds** with similar information presented for **governmental activities** in the government-wide financial statements. By doing so, readers may better understand the impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between **governmental funds** and **governmental activities**.

The City maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, municipal facilities fund and the real estate excise tax fund, all of which are considered to be major funds. Data from the other seventeen non-major funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of proprietary funds. **Enterprise funds** are used to report the same functions presented as **business-type activities** in the government-wide financial statements. The City uses enterprise funds to account for its Surface Water Management fund. **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, self-insurance activities, and unemployment compensation. Because these services largely benefit governmental rather than business-type functions, they have been included within **governmental activities** in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Surface Water Management, which is considered to be a major fund of the City. Conversely, the three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

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

The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report, beginning on page 26.



CITY OF MUKILTEO

Management's Discussion & Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$213 million at December 31, 2006. The largest portion of the City's net assets (86%) reflects investment in capital assets such as land, buildings, machinery and equipment. There is no related outstanding debt used to acquire these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

City of Mukilteo Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$29,764,728	\$24,172,558	\$662,812	\$344,722	\$30,427,540	\$24,517,280
Non-current assets	178,316,632	185,932,116	4,703,709	4,492,209	\$183,020,341	\$190,424,325
Work in Progress (net)	730,252	654,830	18,000	18,000	\$748,252	\$672,830
Total Assets	208,811,612	210,759,504	5,384,521	4,854,931	214,196,133	215,614,435
Liabilities						
Current and Other Liabilities	537,911	990,675	19,324	28,130	\$557,235	\$1,018,805
Long-term Liabilities	489,895	452,363	11,363	0	\$501,258	\$452,363
Total Liabilities	1,027,806	1,443,038	30,687	28,130	1,058,493	1,471,168
Net Assets						
Invested in Capital Assets, Net of Related Debt	\$179,046,883	\$185,420,202	\$4,721,709	\$4,510,209	\$183,768,592	\$189,930,411
Restricted	11,318,444	8,801,020	0	0	\$11,318,444	\$8,801,020
Unrestricted	17,418,479	15,095,244	632,125	316,592	\$18,050,604	\$15,411,836
Total Net Assets	\$207,783,806	\$209,316,466	\$5,353,834	\$4,826,801	\$213,137,640	\$214,143,267

An additional portion of the City's net assets (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of **unrestricted net assets** (9%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Change in Net Assets

The change in net assets table illustrates the increases and decreases in net assets of the City resulting from operations. The City's total net assets decreased approximately \$1 million, which consists of a 1.5 million decrease in governmental-type net assets and an increase of \$.5 million in business-type net assets. Key elements of these changes are as follows:



CITY OF MUKILTEO

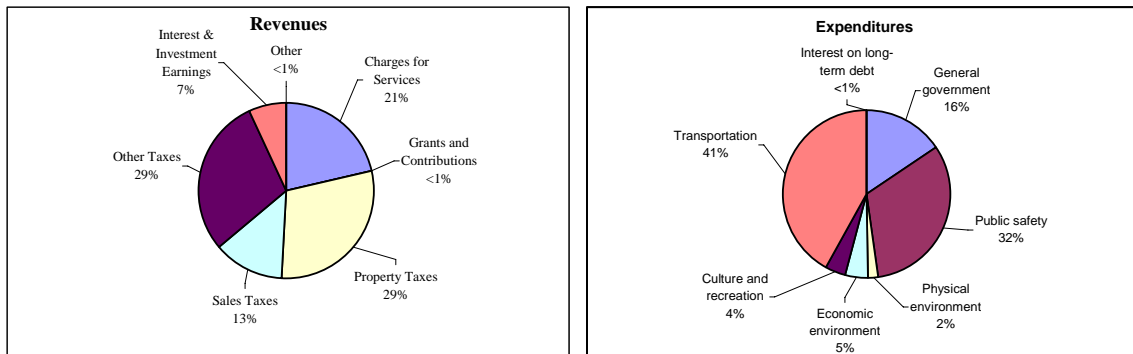
Management's Discussion & Analysis

City of Mukilteo Changes in Net Assets

	Governmental Type Activities		Business-Type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenue:						
Charges for Services	\$3,905,583	\$3,789,664	\$1,202,088	\$1,114,319	\$5,107,672	\$4,903,983
Operating Grants and Contributions	4,505	2,290	0	0	4,505	2,290
Capital Grants and Contributions	0	2,709,399	0	626,960	0	3,336,359
General Revenues:						
Property Taxes	5,394,735	5,682,699	0	0	5,394,735	5,682,699
Sales Taxes	2,396,991	2,296,092	0	0	2,396,991	2,296,092
Other Taxes	5,315,224	5,216,030	0	0	5,315,224	5,216,030
Interest & Investment Earnings	1,262,858	660,834	24,218	10,531	1,287,077	671,365
Gain/(loss) on Disposal of Capital Assets	0	(2,751,260)	0	0	0	(2,751,260)
Other	24,225	54,759	0	0	24,225	54,759
Total Revenue	\$18,304,122	\$17,660,507	\$1,226,307	\$1,751,810	\$19,530,429	\$19,412,317
Expenses						
Governmental Activities						
General government	\$3,090,080	\$2,832,292	\$0	\$0	\$3,090,080	\$2,832,292
Public safety	6,401,863	5,935,915	0	0	6,401,863	5,935,915
Physical environment	347,751	367,107	0	0	347,751	367,107
Economic environment	920,291	753,245	0	0	920,291	753,245
Culture and recreation	737,710	712,526	0	0	737,710	712,526
Transportation	8,319,734	8,539,306	0	0	8,319,734	8,539,306
Interest on long-term debt	25,000	63,999	0	0	25,000	63,999
Business-Type Activities						
Surface Water Management	0	0	699,274	805,811	699,274	805,811
Total Expenses	\$19,842,429	\$19,204,390	\$699,274	\$805,811	\$20,541,703	\$20,010,201
Excess (Deficiency) Before Transfers	(1,538,307)	(1,543,883)	527,033	945,999	(1,011,274)	(597,884)
Transfers	0	0	0	0	0	0
Increase/(Decrease) in Net Assets	(1,538,307)	(1,543,883)	527,033	945,999	(1,011,274)	(597,884)
Net Assets - beginning of year	209,316,466	220,030,985	4,826,801	2,207,667	214,143,267	222,238,652
Prior Year Adjustments	5,647	(9,170,636)	0	1,673,135	5,647	(7,497,501)
Net Assets - end of year	\$207,783,806	\$209,316,466	\$5,353,834	\$4,826,801	\$213,137,640	\$214,143,267

The total cost of all governmental activities in 2006 was \$19.8 million. Of this amount, \$3.9 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 revenues) or \$15.9 million was the cost of governmental services paid primarily by the City's taxpayers.

Governmental Activities



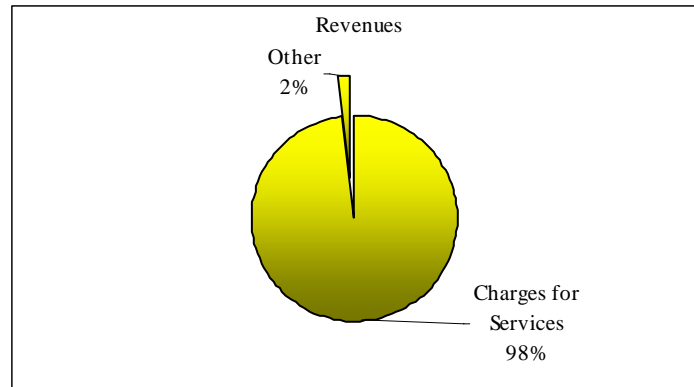


CITY OF MUKILTEO

Management's Discussion & Analysis

Business-type activities increased the City's net assets by \$527,033 in fiscal year 2006, an increase of \$315,533 in unrestricted net assets, and an increase of \$211,500 in capital assets.

Revenues by Source – Business-type Activities



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 is to provide information on near-term inflows, outflows, and balances of **spendable** resources. Such information is useful in assessing the City's financing requirements. In particular, **unreserved fund balance** may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the fiscal year 2006, the City's governmental funds reported combined ending fund balances of \$26.9 million. This fund balance constitutes an **unreserved, undesignated fund balance** (\$8.0 million), which is available for discretionary spending and a **reserved or designated** portion (\$18.9 million) for special revenue funds, capital projects and debt service and is not available for new spending.

The General Fund is the chief operating fund of the City of Mukilteo. At the end of 2006, the fund balance of the General Fund was \$8.0 million, an increase of \$1.3 million over the prior year.

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

Net assets of proprietary funds at the end of the year amounted to \$8.1 million, an increase of \$775 thousand over the prior year. The largest portion of proprietary net assets, \$5.8 million (71%), reflects investment in capital assets. \$2.1 million (26%) represents unrestricted funds, and \$282 thousand (3%) represents restricted funds.

Budgetary Highlights

The annual budget is developed to study and review the City's financial direction. It outlines how financial resources will be managed during the fiscal year; the course can be changed through the allocation of resources. Major participants in the budget process are the Mayor, City Council, City Administrator, Department Directors, Managers and interested Mukilteo citizens.

Appropriations of operating funds are reviewed and amended as needed by the City Council. During fiscal year 2006 the budget was amended one time.



CITY OF MUKILTEO

Management's Discussion & Analysis

A comparison of the actual performance of the general fund on a budgetary basis to the final budget indicates that the total revenues exceeded budgeted total revenues by \$212,934. An increase in both sales and utility taxes are the primary reason for the excess. Expenditures were \$756,151 below budget, mainly due to personnel savings.

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, 2006 amounts to \$183.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the fiscal year was \$6.7 million, which is primarily due to annual depreciation.

City of Mukilteo Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 21,316,642	\$ 20,538,624	\$ 150,000	\$ 150,000	\$ 21,466,642	\$ 20,688,624
Art Collection	174,635	174,635	-	-	174,635	174,635
Construction in progress	730,252	654,830	18,000	18,000	748,252	672,830
Buildings	8,328,999	8,553,039	-	-	8,328,999	8,553,039
Improvements other than buildings	3,452,059	3,490,899	4,549,930	4,338,171	8,001,989	7,829,070
Infrastructure	143,528,734	151,066,794	-	-	143,528,734	151,066,794
Machinery and equipment	1,515,562	1,441,381	3,779	4,038	1,519,341	1,445,419
	<u>\$179,046,883</u>	<u>\$185,920,202</u>	<u>\$ 4,721,709</u>	<u>\$ 4,510,209</u>	<u>\$183,768,592</u>	<u>\$190,430,411</u>

Additional information on the City's capital assets can be found in Note 9 to the financial statements.

Long Term Debt

At the end of the fiscal year, the City had no bonded debt outstanding.

Economic Factors and Next Year's Budget

The City's 2007 budget is essentially a status quo budget developed to retain current service levels. The adopted budget achieved the Mayor's goal of long-term sustainability. The cost reductions and conservative budgeting that has taken place in the past few years have placed the City in a positive financial position.

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 the report, please contact the Finance Director, 4480 Chennault Beach Road, Mukilteo, Washington, 98275, (425) 355.4141 ext. 232.



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$27,642,638	\$521,578	\$28,164,216
Accounts receivable, net	539,348	14,828	\$554,175
Taxes receivable	915,999	126,406	\$1,042,405
Due from other governments	0	0	0
Total Current Assets:	29,097,985	662,812	29,760,796
Noncurrent Assets:			
Prepays	20,810	0	20,810
Investment in joint venture	645,934	0	645,934
Total Noncurrent Assets:	666,744	0	666,744
Capital Assets:			
Capital assets not being depreciated:			
Land	21,316,642	150,000	21,466,642
Art Collection	174,635	0	174,635
Construction in progress	730,252	18,000	748,252
Capital assets net of accumulated depreciation:			0
Buildings	8,328,999	0	8,328,999
Improvements other than buildings	3,452,059	4,549,930	8,001,989
Infrastructure	143,528,734		143,528,734
Machinery and equipment	1,515,562	3,779	1,519,341
Total Capital Assets:	179,046,883	4,721,709	183,768,592
TOTAL ASSETS	\$208,811,612	\$5,384,521	\$214,196,133
LIABILITIES			
Accounts payable and other current liabilities	\$537,911	\$19,324	\$557,235
Due in more than one year:			
Compensated absences	489,895	11,363	501,258
TOTAL LIABILITIES	\$1,027,806	\$30,687	\$1,058,493
NET ASSETS			
Invested in capital asset net of related debt	\$179,046,883	\$4,721,709	\$183,768,592
Restricted for:			
Tourism	95,784	0	95,784
Capital Improvements	10,576,726	0	10,576,726
Investment in Joint Venture	645,934		645,934
Unrestricted	17,418,479	632,125	18,050,604
TOTAL NET ASSETS	\$207,783,806	\$5,353,834	\$213,137,640

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF ACTIVITIES STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

Page 1 of 2

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Primary government:				
Government activities:				
General government	\$3,090,080	\$1,873,890	\$0	\$0
Public safety	6,401,863	1,021,757	2,234	0
Physical environment	347,751	702,323	0	0
Economic environment	920,291	0	0	0
Culture and recreation	737,710	307,613	0	0
Transportation	8,319,734	0	2,271	0
Interest on long-term debt	25,000	0	0	0
Total governmental activities	19,842,429	3,905,583	4,505	0
Business-type activities:				
Surface Water Management	699,274	1,202,088	0	0
Total business-type activities	699,274	1,202,088	0	0
Total primary government	\$20,541,703	\$5,107,672	\$4,505	\$0

General Revenues:

Property taxes
Sales taxes
Utility taxes
Fuel taxes
Excise taxes
Hotel/Motel taxes
Interest and investment earnings
Miscellaneous
Gain (loss) on disposal of capital assets
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year
Prior period adjustment
Net assets at end of year

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2006

Page 2 of 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(\$1,216,189)	\$0	(\$1,216,189)
(5,377,872)	0	(5,377,872)
354,572	0	354,572
(920,291)	0	(920,291)
(430,097)	0	(430,097)
(8,317,463)	0	(8,317,463)
(25,000)	0	(25,000)
(15,932,340)	0	(15,932,340)
0	502,814	502,814
0	502,814	502,814
(\$15,932,340)	\$502,814	(\$15,429,526)
\$5,394,735	\$0	\$5,394,735
2,396,991	0	2,396,991
2,599,479	0	2,599,479
449,968	0	449,968
2,120,675	0	2,120,675
145,102	0	145,102
1,262,858	24,218	1,287,077
24,225	0	24,225
0	0	0
0	0	(0)
14,394,033	24,218	14,418,252
(1,538,307)	527,033	(1,011,274)
209,316,466	4,826,801	214,143,267
5,647	0	5,647
\$207,783,806	\$5,353,834	\$213,137,640

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2006

	GENERAL	MUNICIPAL FACILITIES	REAL ESTATE EXCISE TAX
ASSETS			
Cash and cash equivalents	<u>7,214,147</u>	<u>\$5,825,533</u>	<u>\$8,764,470</u>
Receivables, net			
Accounts receivable	<u>481,582</u>	0	0
Taxes receivable	<u>744,726</u>	0	<u>112,712</u>
Due from other governmental units	<u>0</u>	0	<u>0</u>
Prepays	<u>20,810</u>	0	0
TOTAL ASSETS	8,461,265	5,825,533	8,877,182
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	<u>9,497</u>	0	0
Wages payable	<u>327,486</u>	0	0
Due to other governmental units	<u>0</u>	0	0
Other accrued liabilities	<u>173,119</u>	0	0
TOTAL LIABILITIES	510,102	0	0
Fund Balances:			
Reserved for:			
Prepays	<u>20,810</u>	0	0
Unreserved, designated parks	<u>8,738</u>	0	0
Unreserved, designated self-insurance	<u>18,578</u>	0	0
Unreserved, undesignated, reported in:			
General fund	<u>7,903,037</u>	0	0
Special revenue funds	0	<u>5,825,533</u>	0
Debt service funds	0	0	0
Capital projects funds	0	0	<u>8,877,182</u>
TOTAL FUND BALANCES	7,951,163	5,825,533	8,877,182
TOTAL LIABILITIES AND FUND BALANCES	8,461,265	5,825,533	8,877,182

(continued)

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS DECEMBER 31, 2006

OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>4,121,627</u>	25,925,776
<u>57,765</u>	539,348
<u>58,561</u>	915,999
0	0
0	20,810
4,237,952	27,401,932
<u>8,633</u>	18,130
<u>19,403</u>	346,889
0	0
0	173,119
28,036	538,138
0	20,810
0	8,738
0	18,578
0	7,903,037
<u>2,775,132</u>	8,600,665
<u>98,038</u>	98,038
<u>1,336,746</u>	10,213,928
4,209,916	26,863,794
4,237,952	27,401,932

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2006

Total governmental fund balances **26,863,794**

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. 179,046,883

These assets consist of:

Land	21,316,642
Art Collection	174,635
Construction in progress	730,252
Buildings	10,312,427
Improvements other than buildings	4,361,369
Infrastructure	261,428,710
Machinery and Equipment - General Government	2,927,634
Less: Accumulated Depreciation	(122,204,786)

Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds. 645,934

Investment in Joint Venture 645,934

Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. (489,895)

These long-term liabilities consist of:

Bonds and notes payable	0
Compensated absences	(489,895)

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. 1,717,090

Net assets of governmental activities **207,783,806**

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	GENERAL	MUNICIPAL FACILITIES
REVENUES		
Taxes	<u>9,089,026</u>	0
Licenses	<u>1,201,740</u>	0
Intergovernmental	<u>327,590</u>	0
Charges for services	<u>579,991</u>	0
Fines and forfeits	<u>100,476</u>	0
Miscellaneous	<u>415,313</u>	<u>279,873</u>
TOTAL REVENUES	11,714,135	279,873
EXPENDITURES		
Current:		
General government services	<u>1,916,018</u>	0
Public safety	<u>5,144,251</u>	0
Physical environment	<u>183,771</u>	0
Transportation	<u>292,551</u>	0
Economic environment	<u>914,363</u>	0
Culture and recreation	<u>362,741</u>	0
Capital outlay	<u>144,355</u>	<u>856,468</u>
Debt Service:		
Principal	0	0
Interest	0	0
TOTAL EXPENDITURES	8,958,050	856,468
Excess (deficiency) of revenues over expenditures	2,756,085	(576,595)
OTHER FINANCING SOURCES (USES):		
Transfers in	0	<u>1,284,000</u>
Transfers out	<u>(1,484,000)</u>	0
TOTAL OTHER FINANCING SOURCES (USES)	(1,484,000)	1,284,000
Net change in fund balances	1,272,085	707,405
Fund balances - beginning	<u>6,679,078</u>	<u>5,118,128</u>
Prior period adjustment	<u>0</u>	0
FUND BALANCES - ENDING	7,951,163	5,825,533

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

REAL ESTATE EXCISE TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>1,810,640</u>	<u>1,456,649</u>	12,356,315
0	0	1,201,740
0	<u>449,968</u>	777,558
0	<u>574,830</u>	1,154,821
0	0	100,476
<u>401,135</u>	<u>371,353</u>	1,467,674
2,211,775	2,852,799	17,058,583
0	0	1,916,018
0	<u>943,244</u>	6,087,495
0	<u>71,862</u>	255,633
0	<u>236,526</u>	529,077
0	<u>14,129</u>	928,492
0	<u>210,050</u>	572,791
<u>69,195</u>	<u>385,268</u>	1,455,286
0	<u>500,000</u>	500,000
0	<u>25,000</u>	25,000
69,195	2,386,078	12,269,792
2,142,580	466,722	4,788,791
0	<u>100,000</u>	1,384,000
0	0	(1,484,000)
0	100,000	(100,000)
2,142,580	566,721	4,688,791
<u>6,734,602</u>	<u>3,643,195</u>	22,175,003
<u>0</u>	<u>0</u>	0
8,877,182	4,209,916	26,863,794

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

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, 2006

Net change in fund balances - total governmental funds **4,688,791**

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 life as depreciation expense. This is the amount by which capital outlays plus adjustments exceeded depreciation in the current period. (6,937,819)

This is comprised of:

Capital outlays 1,455,285
Current year depreciation (8,393,104)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, yet the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds. 500,000

This is comprised of:

Long-term debt repayments 500,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (37,532)

This is comprised of:

Accrued compensating absence expense (37,532)

Internal service funds are used by management to charge the cost of equipment rental to individual funds. The net revenue (expense) of this internal service fund is reported with governmental activities. 248,253

Change in net assets of governmental activities **(1,538,307)**

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Taxes	\$8,751,000	<u>\$8,922,500</u>	<u>\$9,089,026</u>	\$166,526
Licenses	1,074,700	<u>1,120,900</u>	<u>1,201,740</u>	80,840
Intergovernmental	325,500	<u>334,500</u>	<u>327,590</u>	(6,910)
Charges for services	575,800	<u>810,200</u>	<u>579,991</u>	(230,209)
Fines and forfeits	89,000	<u>89,100</u>	<u>100,476</u>	11,376
Miscellaneous	78,000	<u>224,000</u>	<u>415,312</u>	191,312
TOTAL REVENUES	10,894,000	11,501,200	11,714,135	212,935
EXPENDITURES				
Current:				
General government services	2,302,550	<u>2,225,141</u>	<u>1,916,018</u>	(309,123)
Public safety	5,405,000	<u>5,517,950</u>	<u>5,144,251</u>	(373,699)
Physical environment	156,950	<u>120,250</u>	<u>183,771</u>	63,521
Transportation	311,400	<u>263,786</u>	<u>292,551</u>	28,765
Economic environment	862,450	<u>965,750</u>	<u>914,363</u>	(51,387)
Culture and recreation	400,900	<u>456,223</u>	<u>362,741</u>	(93,482)
Surface Water	57,100	<u>165,100</u>	<u>144,355</u>	(20,745)
TOTAL EXPENDITURES	9,496,350	9,714,200	8,958,050	(756,151)
Excess (deficiency) of revenues over expenditures	1,397,650	1,787,000	2,756,085	969,086
OTHER FINANCING SOURCES (USES):				
Transfers in	0	0	0	0
Transfers out	(1,184,000)	<u>(1,484,000)</u>	<u>(1,484,000)</u>	0
TOTAL OTHER FINANCING SOURCES USES)	(1,184,000)	(1,484,000)	(1,484,000)	0
Net change in fund balances	213,650	303,000	1,272,085	969,086
Fund balances - beginning	3,210,898	4,696,421	<u>6,679,078</u>	1,982,657
Prior period adjustment	0	0	0	0
FUND BALANCES - ENDING	\$3,424,548	\$4,999,421	\$7,951,163	\$2,951,743

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL MUNICIPAL FACILITIES FUND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Taxes	0	0	0	0
Licenses	0	0	0	0
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeits	0	0	0	0
Miscellaneous	100,000	150,000	279,873	129,873
TOTAL REVENUES	100,000	150,000	279,873	129,873
EXPENDITURES				
Current:				
General government services	0	0	0	0
Public safety	0	0	0	0
Physical environment	0	0	0	0
Transportation	0	0	0	0
Economic environment	0	0	0	0
Culture and recreation	0	0	0	0
Capital outlay	4,816,000	890,000	856,468	(33,532)
TOTAL EXPENDITURES	4,816,000	890,000	856,468	(33,532)
Excess (deficiency) of revenues over expenditures	(4,716,000)	(740,000)	(576,595)	163,405
OTHER FINANCING SOURCES (USES):				
Transfers in	984,000	1,284,000	1,284,000	0
Transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES USES)	984,000	1,284,000	1,284,000	0
Net change in fund balances	(3,732,000)	544,000	707,405	163,405
Fund balances - beginning	2,671,315	5,033,225	5,118,128	84,903
FUND BALANCES - ENDING	(1,060,685)	5,577,225	5,825,533	248,308

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL REAL ESTATE EXCISE TAX FUND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Taxes	1,500,000	2,000,000	1,810,640	(189,360)
Licenses	0	0	0	0
Intergovernmental	0	0	0	0
Charges for services	0	0	0	0
Fines and forfeits	0	0	0	0
Miscellaneous	125,000	200,000	401,135	201,135
TOTAL REVENUES	1,625,000	2,200,000	2,211,775	11,775
EXPENDITURES				
Current:				
General government services	0	0	0	0
Public safety	0	0	0	0
Physical environment	0	0	0	0
Transportation	0	0	0	0
Economic environment	0	0	0	0
Culture and recreation	0	0	0	0
Capital outlay	1,485,000	130,000	69,195	(60,805)
TOTAL EXPENDITURES	1,485,000	130,000	69,195	(60,805)
Excess (deficiency) of revenues over expenditures	140,000	2,070,000	2,142,580	72,580
OTHER FINANCING SOURCES (USES):				
Transfers in	0	0	0	0
Transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES USES)	0	0	0	0
Net change in fund balances	140,000	2,070,000	2,142,580	72,580
Fund balances - beginning	5,423,914	6,109,914	6,734,602	624,688
Prior period adjustment	0	0	0	0
FUND BALANCES - ENDING	5,563,914	8,179,914	8,877,182	697,268

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

DECEMBER 31, 2006

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS SURFACE WATER MANAGEMENT	(GOVERNMENTAL ACTIVITIES) INTERNAL SERVICE FUNDS
ASSETS		
Current assets:		
Cash and cash equivalents	\$521,578	\$1,716,863
Taxes receivable	\$126,407	0
Accounts receivable, net	14,828	0
Total Current Assets	<u>662,812</u>	<u>1,716,863</u>
Capital assets, net		
Land	150,000	0
Other improvements	4,549,930	0
Machinery and equipment	3,779	1,030,551
Construction in progress	18,000	0
Total Noncurrent Assets	<u>4,721,709</u>	<u>1,030,551</u>
TOTAL ASSETS	<u>\$5,384,521</u>	<u>\$2,747,414</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$8,633	\$0
Wages payable	10,691	(228)
Total Current Liabilities	<u>19,324</u>	<u>(228)</u>
Noncurrent Liabilities		
Compensated Absences	11,363	0
Total Noncurrent Liabilities	<u>11,363</u>	<u>0</u>
TOTAL LIABILITIES	<u>\$30,687</u>	<u>(\$228)</u>
FUND EQUITY		
Invested in capital assets, net of related debt	\$4,721,709	\$1,030,551
Restricted	0	282,520
Unrestricted	632,125	1,434,571
TOTAL FUND EQUITY	<u>5,353,834</u>	<u>2,747,642</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$5,384,521</u>	<u>\$2,747,414</u>

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2006

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS SURFACE WATER MANAGEMENT	(GOVERNMENTAL ACTIVITIES) INTERNAL SERVICE FUNDS
OPERATING REVENUE:		
Charges for services	\$1,202,088	\$1,245,541
Total Operating Revenues	1,202,088	1,245,541
OPERATING EXPENSES:		
Personnel services	319,922	784,141
Supplies	27,744	803
Other services and charges	71,819	126,475
Intergovernmental services	45,280	0
Debt service - principal	0	0
Capital outlays	0	0
Depreciation	234,508	185,869
TOTAL OPERATING EXPENSES	699,273	1,097,288
Operating Income (Loss)	502,815	148,253
NON-OPERATING REVENUE (EXPENSES):		
Investment interest revenues	24,218	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	24,218	0
Income (Loss) Before		
Contributions and Transfers	527,033	148,253
Capital contributions	0	0
Transfers in	0	100,000
Transfers out	0	0
NET INCOME (LOSS)	527,033	248,253
NET EQUITY - BEGINNING	4,826,801	2,499,389
Prior Period Adjustment	0	0
NET EQUITY - ENDING	\$5,353,834	\$2,747,642

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Page 1 of 2

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS SURFACE WATER MANAGEMENT	(GOVERNMENTAL ACTIVITIES) INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$1,197,532	\$1,245,541
Payments to suppliers	(144,844)	(127,506)
Payments to employees	(317,365)	(784,141)
NET CASH PROVIDED BY OPERATING ACTIVITIES	735,323	333,894
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers to other funds	0	0
Transfers from other funds	0	100,000
Receipts from non-capital grants	0	0
Loan interest	0	0
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	0	100,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from capital grants	0	0
Proceeds from sale of capital assets	0	0
Capital contributions	(446,007)	(244,721)
Acquisition and construction of capital assets	0	0
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	(446,007)	(244,721)
CASH FLOW FROM INVESTING ACTIVITIES:		
Investment income	24,218	0
NET CASH PROVIDED BY INVESTING ACTIVITIES	24,218	0
Net Increase (Decrease) in Cash and Cash Equivalents	313,534	189,173
Cash and Cash Equivalents, January 1	208,044	1,527,690
CASH AND CASH EQUIVALENTS, DECEMBER 31	521,578	1,716,863
Current Cash and Cash Equivalents	521,578	1,716,863
Restricted Cash and Cash Equivalents	0	0
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$521,578	\$1,716,863

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Page 2 of 2

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS SURFACE WATER MANAGEMENT	(GOVERNMENTAL ACTIVITIES) INTERNAL SERVICE FUNDS
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$502,814	\$148,253
Adjustments to Reconcile Operating Income to Net Cash Provided (used by Operating Activities)		
Depreciation	234,508	185,869
Change in Current Assets and Liabilities		
(Increase) decrease in receivables	(4,557)	0
(Increase) decrease in due from other governments	0	0
Increase (decrease) in accounts payable	2,557	(228)
Increase (decrease) in due to other governments	0	0
Increase (decrease) in compensated absences	0	0
Increase (decrease) in other current liabilities	0	0
Prior period adjustment	0	0
TOTAL ADJUSTMENTS	232,508	185,641
NET CASH PROVIDED BY OPERATING ACTIVITIES	735,323	333,894

SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:

Non-Cash Financing, Capital and Investing Activities:		
Prior period corrections	0	0
Capital assets acquired through contributions from developers	0	0
Net Equipment trade-in value	0	0
TOTAL NON-CASH ACTIVITIES	\$0	\$0

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS FIDUCIARY FUNDS DECEMBER 31, 2006

ASSETS AND OTHER DEBITS	
Cash and cash equivalents	\$211,792
Accounts receivable	<u>(\$166)</u>
TOTAL ASSETS	<u>211,626</u>
LIABILITIES	
Other liabilities	<u>(204,127)</u>
FUND BALANCE	
Unreserved, undesignated	<u>(7,499)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>(\$211,626)</u>

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

ADDITIONS:	
WST-Traffic fines	140,762
Sno County Crime Victims Comp	1,671
Deposits	73,572
Investment earnings	7,508
TOTAL ADDITIONS	223,513
DEDUCTIONS:	
WST-Traffic fines	94,311
Sno County Crime Victims Comp	1,671
Mukilteo TVB share	46,451
TOTAL DEDUCTIONS	142,433
CHANGE IN NET ASSETS	81,080
Net Assets - Beginning	130,546
NETS ASSETS - ENDING	\$211,626

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Note to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The City of Mukilteo (City) was incorporated on May 12, 1947 and operates under the laws of the State of Washington applicable to a Code City with a Mayor Council form of government and provides such services as authorized as a general-purpose government.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement #20 requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principals Board Opinions and Accounting Research Bulletins. Governments were given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The City has elected to implement all FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements.

The following is a summary of other significant accounting policies:

Financial Reporting Entity

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. The accounting policies of the City conform to Budgetary Accounting Reporting System (BARS) for Category 1 local governments as prescribed by the State Auditor's Office.

The City has entered into a single governmental joint venture agreement. This is accounted for using the equity method, which reflects the City's investment in operations and net worth on the basis of contribution and participation.

Basic Financial Statements – GASB Statement #34

The City has implemented GASB Statement #34 – *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*. Under this format, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (statement of net assets and statement of activities) report on the City as a whole, excluding fiduciary activities. *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. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statement focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements. The 'doubling up' effect of internal service fund activity has been removed from the government-wide statements with the expenses shown in the various functions and segments on the Statement of Activities.



CITY OF MUKILTEO

Note to the Financial Statements

Government-Wide and Fund Financial Statements

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in the order of their relative liquidity. Net assets are required to be displayed in three components: (1) invested in capital assets, net of related debt, (2) restricted and (3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or (3) by enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the city would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the City, whether by administrative policy or legislative action of the City, are not shown on the government-wide financial statements. Note 8 discusses the internal reservations and designations of net assets in the various funds to demonstrate the City's intended use of those net assets.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions and segments of the City 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 users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Another part of the basic financial statements are the fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the major government-wide financial statements. The focus on the fund financial statements is on major funds, as defined by Statement #34. Although the new model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives the government the option of displaying other funds as major funds. The city has not added any funds that did not meet the percentage criteria to the major funds list. Other non-major funds, as well as the internal service funds, are combined in a single column on the fund financial statements.

The internal service funds, which provide services to the other funds of the government, are presented in a single combined column in the proprietary fund financial statements. Because the principal users of the internal service funds are the City's governmental activities, the assets and liabilities of the internal service funds are consolidated into the governmental activities column of the government-wide Statement of Net Assets. The costs of the internal service fund services are spread to the appropriate function or segment on the government-wide Statement of Activities and the revenues and expenses within the internal service funds are eliminated from the government-wide financial statements to avoid any doubling up effect of these revenues and expenses.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the sources and uses of liquid resources, and (3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements. Additional reconciliation information is provided in Note 2.



CITY OF MUKILTEO

Note to the Financial Statements

The proprietary fund and fiduciary fund financial statements are prepared on the same basis (economic resources management focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but will be included in the fund columns in the proprietary fund financial statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not on the face of the fund statements.

Basis of Presentation

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The following fund categories (further divided by fund type) are used by the City:

Governmental Funds

Governmental funds are used to account for the City's general government activities. The focus of Governmental Fund measurement, in the fund financial statements, is upon determination of financial position and changes in financial position rather than upon net income.

The City reports the following major governmental funds:

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 is always presented as a major fund.

Municipal Facilities Fund - The municipal facilities fund is used to construct city-owned buildings and facilities.

Real Estate Excise Tax Fund - The Real Estate Excise Tax Fund, a capital projects fund, accounts for the proceeds of the state excise tax levied and a locally imposed tax on all sales of real estate. These funds must be used solely on capital projects that are listed in the entities capital facilities plan element of the comprehensive plan.

The City reports the following major enterprise fund:

Surface Water Management Fund - The Surface Water Management fund accounts for the revenues and expenses to operate and maintain the surface water management system.

Additionally, the City reports the following fund types:

Special Revenue Funds account for revenue sources that are restricted to expenditures for specific purposes (not including major capital projects). The restrictions may be imposed by outside parties or by the governing body. The revenues for these accounts are derived from specific taxes; grants or other sources and are designated to finance particular activities of the City. One special revenue fund is presented as a major fund in the basic financial statements: the Municipal Facilities Fund.

Debt Service Funds account for the resources accumulated and the servicing of general long-term debt not being financed by proprietary funds. There are no debt service funds presented as major funds.



CITY OF MUKILTEO

Note to the Financial Statements

Capital Project funds account for the acquisition of capital assets for construction of major capital projects not being financed by proprietary funds. Two capital project funds, the Real Estate Excise Tax fund and the Municipal Facilities funds are presented as major funds. This fund is used to account for revenue from the real estate excise tax and is used for capital projects as identified in the Capital Facilities Plan.

Permanent Funds are a new fund type created by GASB Statement #34. These funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's program, that is, for the benefit of the government or its citizens. The City does not currently have any permanent funds.

Proprietary Funds

Proprietary funds account for activities of the City similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The focus of Proprietary Fund measurement is upon the determination of operating income, changes in net assets, financial position and cash flows. The following are the Proprietary Funds of the City:

Enterprise Funds are used to account for those operations that provide services to the general public for a fee. Under GASB Statement #34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: (1) any activity that has issued debt backed solely by the fees and charges of the activity, (2) if the cost of providing the services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or (3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City's only enterprise fund, Surface Water Management, is presented as a major fund.

Internal Service Funds account for operations that provide services to other departments or agencies of the government or to other governments on a cost-reimbursement basis. Internal Service funds are not part of the major funds concept.

The internal service funds of the City are as follows:

- a. The Self-Insurance Health Benefit Fund accounts for the payment of medical insurance premiums and any claims issued under the City's self-insured dental and vision program.
- b. Equipment Replacement Fund accounts for the replacement of the City's fleet.
- c. Unemployment Compensation Fund

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee or agency capacity on behalf of others and therefore are not available to support City programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds.

Fiduciary Funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs. GASB Statement #34 redefined fiduciary funds as follows:

Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee plans. The City has no pension trust funds.

Investment Trust Funds are required for reporting of any external investment pools sponsored by the reporting government. The City does not sponsor any such pools and therefore has no investment trust funds.

Private-Purpose Trust Funds account for the assets held by the City under the terms of a formal trust agreement where both the principal and income may be used to support individuals, private organizations or other governments as set forth in the trust agreement. The City does not currently have any private-purpose trust funds.



CITY OF MUKILTEO

Note to the Financial Statements

Agency Funds account for assets the City holds as an agent for individuals, private organizations, other governments or other funds in a temporary custodial capacity. The City currently maintains a Treasurers' Suspense fund that holds assets until their correct fund location can be determined when appropriate expenses occur, or until refunded.

Non-current Governmental Assets and Liabilities

GASB Statement #34 eliminates the presentation of account groups in the financial statements (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide Statement of Net Assets.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds are reported in the government-wide financial statements using the flow of economic resources measurement focus and accrual basis of accounting.

Governmental types are presented, in the fund financial statements, using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; when they are "measurable and available". "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon thereafter to pay liabilities of the current period. The City considers revenues available under modified accrual, if they are earned by December 31 (all eligibility requirements have been met) and the revenue is expected to be collected within two months 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.

When applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 – *Recipient Reporting for Certain Shared Non-Exchange Transactions*, receivables and revenues are recognized when the applicable eligibility requirements, including time requirements are met. Resources transmitted before the eligibility requirements are met are reported as deferred revenue.

Under Statement #33, property taxes and special assessments are susceptible to accrual when an enforceable legal claim has arisen. Sales taxes, or other taxes collected by the state on behalf of the City are also recognized as revenue. Other receipts become measurable and available when cash is received by the City and are recognized at that time. Interest and dividend income is recognized on the modified accrual basis. Changes in the fair value of investments are recognized in investment income at the end of the year.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. For the governmental fund statements, grant revenue earned but not expected to be received within one month of year-end is deferred.

Proprietary funds and trust funds are accounted for on the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for proprietary fund types and trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus.

Budgets and Budgetary Accounting

The City budgets its funds in accordance with the Revised Code of Washington 35A.33. Annual appropriated budgets are adopted for the general, special revenue, debt service and capital project funds.



CITY OF MUKILTEO

Note to the Financial Statements

Budgetary accounts are integrated in fund ledgers for all budgeted funds and the financial statements include budgetary comparisons for annually budgeted governmental funds only. 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. Annual appropriated budgets are adopted at the level of the fund.

Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class.

Appropriations for general and special revenue funds lapse at year end, except for appropriations for capital outlays, which are carried forward until they are fully expended or the purpose of the appropriation has been accomplished or abandoned.

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

Prior to November 1, the Mayor submits a proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by departments during the proceeding months and balanced with revenue estimates made by the Finance Director.

The Council conducts public hearings on the proposed budget in November/December.

Adjustments are made to the proposed budget and a final budget is adopted by ordinance no later than December 31.

Within 30 days of adoption, the final budget is available to the public.

The City Administrator is authorized to transfer budgeted amounts between departments 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 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 or more than the majority after holding public hearings.

The City prepares its annual budget on a basis consistent with GAAP. GASB Statement #34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display the original budget, amended budget and actual results (on a budgetary basis).

Encumbrances

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.

Assets, Liabilities, and Equities

Cash Equivalents

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.

Investments

The City generally reports investments at their fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred.



CITY OF MUKILTEO

Note to the Financial Statements

The City's funds are invested through the Finance Department in accordance with Washington State statutes. As required by law, all deposits and investments are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, bankers acceptances, or certificates of deposit with Washington state banks and savings and loan institutions.

Investment Valuation

State Treasurer's Investment Pool – Investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of a participant's position in the pool approximates the value of the pool shares. The method used to determine the value of the participant's equity withdrawn is based on the book value of the participant's percentage participation at the date of such withdrawal.

Temporary investments – Any investments held as temporary in nature are stated at cost plus accrued interest which approximates the fair value.

Other investments – Investments are reported at fair value.

Currently, the City invests only in the State Treasurer's Investment Pool.

Receivables

Taxes receivable consist of property taxes. Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2006, \$2,560 of special assessments was delinquent.

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.

Prepaid Items

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. The City is carrying a prepaid rent amount for the deposit paid to rent the current City Hall building.

Capital Assets

Prior to GASB Statement #34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Where historical cost is not known, assets are recorded at estimated historical cost using current assessed value discounted using the Consumer Price Index (CPI) back to the date of acquisition. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. New capital assets are depreciated at ½ the rate of a full year during the year acquired and the year of retirement.



CITY OF MUKILTEO

Note to the Financial Statements

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. For the year ended December 31, 2006, the City capitalized net interest costs of \$ 0, as no construction is underway requiring debt obligations.

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

<u>Assets</u>	<u>Useful life (Years)</u>
Buildings and improvements	12 - 100
Storm drainage systems	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 - 25
Computers/software	3

Capital assets transferred between funds are transferred at their net book value (cost less accumulated depreciation) or net realized value, if lower, as of the date of the transfer.

Amounts Due to and from Other Funds

Transactions that would be treated as revenue, expenditures or expenses if they involved organizations external to the governmental unit are accounted for as revenue and expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund, which are properly applicable to another fund, are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense 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).

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Direct overhead costs charged by the General Fund to the Surface Water Management Fund are not backed out from the Statement of Activities.

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds.

Compensated Absences

Upon separation, an employee will be paid for accrued vacation, comp time and sick leave on a sliding scale (depending on years of service). Such time will be paid at the employee's current rate of pay. Compensated absence including payroll taxes are reported as non-current liability on the Statement of Net Assets. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is estimated using the limits as indicated below.



CITY OF MUKILTEO

Note to the Financial Statements

Vacation Pay – Employees earn vacation based upon their years of service. Accumulated vacation may not exceed two (2) years allowed vacation. Unused vacation at retirement or termination is considered vested and payable to the employee. Compensatory time will not exceed 80 hours at the beginning of any calendar year for each employee, without the approval of the City Administrator.

Sick Pay – Upon termination of employment, employees with required length of service may receive cash payment for all accumulated vacation and comp-time leave up to the restricted limits as follows:

<u>Years of Service</u>	<u>% Paid</u>
Less Than 5 Years	33.33%
Between 5 and 10 Years	66.67%
More than 10 Years	100.00%

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 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 115 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, professional, public officials’ errors or omissions, stopgap, and employee benefits liability. Limits are \$3 million per occurrence in the self insured layer, and \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public official’s errors or omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damages, 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 reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration and loss analysis. 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 agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA’s assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership’s annual assessment.



CITY OF MUKILTEO

Note to the Financial Statements

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.

Each fund 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 three years.

Changes in the fund's claims liability amount in the years 2005 and 2006 were:

Year Ended December 31	Beginning of Year Liability	Current year Claims & Changes in Estimates	Claim Payments	Balance at Year End
2005	\$ 51,707.00	\$ 130,153.00	\$ (99,791.00)	\$ 82,069.00
2006	\$ 82,069.00	\$ 116,296.00	\$ (58,979.00)	\$ 139,386.00

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 assets/balance sheet and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 – Reconciliation of Governmental Fund Financial Statements to Government-wide Statements

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliations briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement. Additional reconciliations follow:

Explanation of certain differences between the Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

The total fund balance of the City's governmental funds, \$26,863,794, differs from net assets of governmental activities, \$207,783,806, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets and disposal/retirement of capital assets.

When capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.



CITY OF MUKILTEO

Note to the Financial Statements

Costs of Capital Assets	301,251,669
Accumulated Depreciation	<u>(122,204,786)</u>
	<u>179,046,883</u>

Assets attributed to the joint venture are not reported on the governmental balance sheet. The statement of net assets includes assets of the City as a whole and thus includes joint venture assets.

Investment in Joint Venture	645,934
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds Payable	-
Compensated Absences	<u>(489,895)</u>
	<u>(489,895)</u>

Internal service funds are used by management to charge the costs of certain activities, such as motor pool and vehicle rental/replacement, to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

Internal Service Fund Net Assets	1,717,090
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Explanation of certain difference between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

The net change in fund balances for governmental funds, \$4,688,791, differs from the change in net assets for governmental activities (\$1,538,307) reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds and the disposal/retirement of capital assets. The effect of the difference is illustrated below.

When capital assets that are used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those activities is allocated over the useful lives and reported as depreciation expense.

Capital outlay	\$1,455,285
Depreciation expense	<u>(\$8,393,104)</u>
Change in net assets	<u>(\$6,937,819)</u>

Internal service funds are used by management to charge the costs of certain activities, such as insurance and motor pool, to the individual funds. The adjustments for internal service funds 'close' those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' cost for the year.

Revenue & other sources	\$1,345,541
Expenditures & other uses	<u>(\$1,097,288)</u>
Change in net assets	<u>\$248,253</u>

Repayment of bond principal is reported in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal payments Made	500,000
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CITY OF MUKILTEO
Note to the Financial Statements

Interfund transactions between governmental activities are eliminated in the statement of activities.

Transfers Out	(1,484,000)
Transfers In	1,484,000
	-

Note 3 – Cash and Investments

As of December 31, 2006, the City held the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Local Government Investment Pool	\$28,387,880	-
Total Fair Value	\$28,387,880	

Interest Rate Risk

The City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investments to less than three years.

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, 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 \$100,000. All deposits not covered by FDIC insurance are covered by the Washington Public Deposit Protection Commission (WPDPC) of the State of Washington for amounts over \$100,000.

The WPDPC 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 WPDPC 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 2006, the City invested only in the Washington State Local Government Investment Pool.



CITY OF MUKILTEO

Note to the Financial Statements

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.
U.S. Treasuries	90%
U.S. Agencies	90%
State of WA bonds	20%
Local Govt. Bonds	10%
State Pool (LGIP)	100%

The City currently holds 100% of its investments in the State Investment Pool (LGIP).

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	\$27,642,639	\$521,578	\$28,164,217	\$211,792	\$28,376,009
	\$27,642,639	\$521,578	\$28,164,217	\$211,792	\$28,376,009

Note 4 – Taxes

Under GASB Statement #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. Taxes are levied and become an enforceable lien against properties on January 1. On February 14 tax bills are mailed. The first of two equal installments are due on April 30. On May 31, the assessed value of property is established for next year’s levy at 100 percent (100%) of market value. The second installment is due on October 31.

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.



CITY OF MUKILTEO
Note to the Financial Statements

Note 5 – Receivables and Payables

Receivables at December 31, 2006, are as follows:

	Accounts Receivable	Taxes Receivable	Due from other Governments	Other	Total
Governmental Activities					
General Fund	\$481,582	\$744,726	\$0	\$0	\$1,226,308
Municipal Facilities Fund	0	0	0	0	0
Real Estate Excise Tax Fund	0	112,712	0	0	112,712
Other Governmental Funds	57,765	58,561	0	0	116,326
Internal Service	0	0	0	0	0
Total Governmental Activities	\$539,347	\$915,999	\$0	\$0	\$1,455,346
Business-type Activities					
Surface Water Fund	\$14,828	\$126,407	\$0	\$0	\$141,235
Total Business-type Activities	\$14,828	\$126,407	\$0	\$0	\$141,235

Payables at December 31, 2006, are as follows:

	Accounts Payable	Wages Payable	Due to Other Governments	Other	
Governmental Activities					
General Fund	\$9,497	\$327,486	\$0	\$173,119	\$510,102
Municipal Facilities Fund	0	0	0	0	0
Real Estate Excise Tax Fund	0	0	0	0	0
Other Governmental Funds	8,633	19,404	0	0	28,037
Internal Service	0	(228)	0	0	(228)
Total Governmental Activities	\$18,130	\$346,662	\$0	\$173,119	\$537,911
Business-type Activities					
Surface Water Fund	\$8,633	\$10,691	\$0	\$0	\$19,324
Total Business-type Activities	\$8,633	\$10,691	\$0	\$0	\$19,324

Note 6 – 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 7 – Deficits in Fund Equity/Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, no funds had an accumulated fund deficit.

For the year ended December 31, 2006, no expenditures exceeded budget at the program level (i.e. the controlled level of budgetary control) in any funds.



CITY OF MUKILTEO
Note to the Financial Statements

Note 8 – Net Assets Reservations and Designations

Restrictions on net assets are imposed in 3 ways: (1) by external sources, (2) by law via the constitution and (3) by law through enabling legislation. Enabling legislation allows the City to assess, levy or otherwise mandate payment of resources from external providers and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The government-wide statement of net assets reports \$11,318,444 of restricted assets, of which \$10,672,510 is restricted by enabling legislation.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy of legislative action of the reporting government, are shown in aggregate on the governmental fund financial statements, but not on the proprietary fund financial statements. The City does, however, reserve or designate portions of net assets in other funds to demonstrate the government’s intended use of those net assets. Reservations are created by legislative action of the City Council while designations are created by administrative policy.

Reserves for prepaid items are shown on the governmental fund financial statements. For the year ended December 31, 2006, there were no other fund reservations.

Note 9 – Capital Assets

Capital asset activity for the year ended December 31, 2006 follows:

Governmental Activities				
	Beginning			
	Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	20,538,624	778,017	0	21,316,641
Art Collections	174,635	0	0	174,635
Construction in Progress	654,830	75,422	0	730,252
Total capital assets, not being depreciated:	21,368,089	853,439	0	22,221,528
Capital assets, being depreciated:				
Building	10,230,239	82,188	0	10,312,427
Other Improvements	4,206,111	155,258	0	4,361,369
Machinery and Equipment	2,566,653	405,963	44,983	2,927,633
Infrastructure	261,226,955	201,756	0	261,428,711
Total capital assets being depreciated:	278,229,958	845,165	44,983	279,030,141
Less accumulated depreciation for:				
Buildings	(1,677,199)	(306,228)	0	(1,983,427)
Improvements other than buildings	(715,211)	(194,099)	0	(909,310)
Machinery and Equipment	(1,125,272)	(331,783)	44,983	(1,412,072)
Infrastructure	(110,160,161)	(7,893,871)	154,055	(117,899,977)
Total accumulated depreciation:	(113,677,844)	(8,725,981)	199,038	(122,204,786)
Total capital assets, being depreciated, net:	164,552,114	(7,880,816)	244,021	156,825,356
Governmental activities capital assets, net:	185,920,203	(7,027,377)	244,021	179,046,883

(Internal Service capital assets listed below are included in the Governmental Activities table above. This table is included to assist the reader.)

Internal Service Capital Asset	Beginning Balance	Increases	Decreases	Ending Balance
Machinery & Equipment	1,691,213	245,188	44,983	1,891,418
Less accumulated depreciation for:				
Machinery & Equipment	(719,514)	44,983	186,336	(860,867)
Internal Services Assets, Net:	971,699	290,171	231,319	1,030,551



CITY OF MUKILTEO

Note to the Financial Statements

Business-type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$150,000	0	0	\$150,000
Construction in Progress	18,000	0	0	18,000
Total capital assets, not being depreciated:	\$168,000	\$0	\$0	\$168,000
Capital assets, being depreciated:				
Other Improvements	2,053,106	443,956	0	2,497,062
Other Improvements - Contractor Contributions	3,035,681	0	0	3,035,681
Machinery and Equipment	17,323	2,051	0	19,374
Total capital assets being depreciated:	\$5,106,110	\$446,007	\$0	\$5,552,117
Less accumulated depreciation for:				
Other Improvements	(400,600)	0	(194,661)	(595,261)
Other Improvements Contractor Contributions	(350,016)	0	(37,537)	(387,553)
Machinery and Equipment	(13,285)	257	(2,566)	(15,594)
Total accumulated depreciation:	(763,901)	257	(234,764)	(998,408)
Total capital assets, being depreciated, net:	4,342,209	446,264	(234,764)	4,553,709
Business activities capital assets, net:	\$4,510,209	\$446,264	(\$234,764)	\$4,721,709

Depreciation Expense by Function

GOVERNMENTAL ACTIVITIES

General government	\$ 55,476
Public safety	284,213
Physical environment	94,025
Economic environment	1,491
Culture and recreation	162,790
Transportation	7,795,109
Total depreciation expense - Governmental activities	<u>\$ 8,393,104</u>

BUSINESS-TYPE ACTIVITIES

Surface Water	\$234,508
Total depreciation expense - Business-type activities	<u>\$234,508</u>

In 2002, the City implemented the infrastructure reporting requirements of GASB Statement #34, including retroactive infrastructure, with the following exceptions: The City has not retroactively valued the land under the streets and right-of-ways.

Note 10 – Long-term Debt

The City can issue two types of general obligation bonds, Limited Tax General Obligation bonds (LTGO) and Unlimited Tax General Obligation bonds (UTGO) bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The City can 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. Revenue bonds have been issued for business activities. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility.



CITY OF MUKILTEO

Note to the Financial Statements

General obligation bonds have been issued in prior years for governmental activities and were used to construct the library and a fire station. The original amount of debt issued in prior years was \$2,800,000 and \$2,415,000 respectively. Classified in Governmental activities in the government-wide financial statements:

General Obligation Bonds:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Bonds payable					
General obligation bonds	\$500,000	\$ 0	\$500,000	\$0	\$0

As of December 31, 2006, the City had no General Obligation Bonds.

Special Assessment Funds

As a trustee for improvement districts, the City is responsible for collection of assessments levied against the owners of property within the improvement districts and for disbursement of these amounts for retirement of the respective bonds issued to finance the improvements.

Improvement districts are collateralized by properties within the districts. In the event of default by the owner, the City may enforce an auction sale to satisfy the debt service requirements of the improvement bonds. Special assessment receivables that were outstanding at December 31, 2006 totaled \$5,694, with \$2,560 delinquent.

Note 11 – Retirement and Pension Plans

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The 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. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

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

Plan Description

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 combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants 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 exercise an option to transfer their membership to Plan 3. PERS participants 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 option of choosing membership in either PERS Plan 2 or PERS Plan 3.



CITY OF MUKILTEO

Note to the Financial Statements

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. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age 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 annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

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 benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. 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 Employee Retirement Benefits Board.

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee rates for Plan 1 are established by statute at six percent and do not vary from year to year. 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. PERS 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.



CITY OF MUKILTEO

Note to the Financial Statements

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2006 were as follows:

Contributor	PERS 1 Required	PERS 2 Required	PERS 3 Required	
Employer	3.69%	3.69%	3.69	07/01/06 - 12/31/06
Employee	6.00%	3.50%	Choice of 7 rates 5-15%	07/01/06 - 12/31/06
Total	9.69%	7.19	N/A	
Employer	2.44%	2.44%	2.44%	01/01/06 – 06/30/06
Employee	6.00%	2.25%	Choice of 7 rates 5-15%	01/01/06 – 06/30/06
Total	8.44%	4.69%	N/A	

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$ 5,008	\$ 47,774	\$ 12,381
2005	\$ 2,894	\$ 25,861	\$ 6,710
2004	\$ 2,196	\$ 20,226	\$ 4,650

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

Plan Description

LEOFF is a cost-sharing-multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full time, fully compensated, local law enforcement officers and fire fighters. LEOFF is comprised primarily of non-state employees. LEOFF participants 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 retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes 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 is as follows:

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

The final average salary 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. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).



CITY OF MUKILTEO

Note to the Financial Statements

Plan 2 retirement benefits are vested after an employee completes 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 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will 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. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. 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 Plan 1 in accordance with the requirements of the Pension Funding Council.

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 methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2006, were as follows:

	<i>Date</i>	<i>LEOFF Plan 1</i>	<i>LEOFF Plan 2</i>
Employer*	01/01/06 – 08/31/06	0.19%	4.87%
	09/01/06 – 12/31/06	0.18%	4.90%
Employee	01/01/06 – 08/31/06	0.00%	7.79%
	09/01/06 – 12/31/06	0.00%	7.85%
State		n/a	3.13%

*The employer rates include the employer administrative expense fee currently set at 0.19%.

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

	LEOFF Plan 1	LEOFF Plan 2
2006	\$0	\$131,319
2005	\$0	\$98,312
2004	\$0	\$78,130

Other Pension Plans

Volunteer Firefighters Relief and Pension Fund

The Volunteer Fire Fighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires service with a fire department of an electing municipality of Washington State except those covered by LEOFF. The system is funded through member contributions of \$30 per year and employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax; and earnings



CITY OF MUKILTEO

Note to the Financial Statements

from the investment of moneys by the Washington State Investment Board. However, members may elect to withdraw their contributions upon termination.

The Western Conference of Teamsters Pension Trust Fund

Each month the City contributes to the Western Conference of Teamsters Pension Trust Fund for members of the Police and Public Works Teamsters Bargaining Units. For members of the Police Bargaining Unit, the monthly contribution is \$87.00, and for members of the Public Works Bargaining Unit, the monthly contribution is \$130.00. The Western Conference of Teamsters Pension Trust Fund was created in 1955 to conform to the applicable requirements of the Labor Management Relations Act of 1947, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and qualify as a "qualified trust" and as an "exempt trust" pursuant to 1954 Internal Revenue Code, sections 401, 501(a), and other pertinent provisions thereof. The Trust's purpose is to provide retirement, death, and termination benefits for the Employees and their families and dependents.

Note 12 – Post Retirement Benefits Other Than Pension Benefit

In addition to pension benefits, per state law, the City provides 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. 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. During the year, expenditures of \$21,337 were incurred for post retirement health care insurance and \$1,373 for medical services not provided by insurance.

Note 13 – Interfund Transactions

Classification of Interfund Transactions

Transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services or payments in lieu of taxes, are similarly treated when they involve other funds of the City.

Transfers to support the operations of other funds are recorded as "Operating Transfers" and classified with "Other Financing Sources or Uses".

Contributions to the capital of enterprise or internal service funds, and transfers of remaining balances when funds are closed are classified as residual equity transfers and reported as direct additions to or deductions from fund equity.

Loans between funds are classified as interfund loans receivable and payable or as notes payable to and from other funds on the combined balance sheet depending on the time period for which the loan was made. As of December 31, 2006, the City has no interfund loans:

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services in return. The City uses transfers to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) 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 the year is as follows:



CITY OF MUKILTEO

Note to the Financial Statements

Operating Transfers In		Operating Transfers Out General Fund
Technology Replacement Fund	\$100,000	\$100,000
Health Insurance Fund	\$100,000	\$100,000
Municipal Facilities Fund	\$1,284,000	\$1,284,000
Total	\$1,484,000	\$1,484,000

Note 14 – 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 has a 4.02% interest in the equity and operations of the venture. The City's share of the assets and equity as of December 31, 2006 was \$645,934.

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 15 – Subsequent Events

The City is involved in litigation arising in the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters will not have a material adverse effect on the City's financial condition.

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any to be immaterial.

During 2007, the City signed a \$6.9 million contract to build a new City Hall Facility. Total cost of the Facility is expected to be \$7.6 million (\$700k in taxes) plus approximately \$350k for furniture and fixtures. Ground breaking for the new Facility took place during April 2008. Construction is scheduled to be completed in December 2008.

Note 16 – Prior Period Adjustment

Governmental fixed assets in 2005 underwent a detailed reconciliation, which revealed an understatement of fixed assets. As a result, prior period entries were made to correct these errors; this resulted in a \$5,647 adjustment. Although this is not material, Management felt it prudent to include in the Financial Statements.

GFA Prior Period Adjustments	
Adjustment to assets	2,201
Adjustment to depreciation	7,047
Reconciling difference	(3,601)
Total Prior Period Adjustments	5,647



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.

Our mission is to work in cooperation 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 has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

State Auditor
Chief of Staff
Chief Policy Advisor
Director of Administration
Director of State and Local Audits
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free hotline for government efficiency

Brian Sonntag, CGFM
Ted Rutt
Jerry Puggetti
Doug Cochran
Chuck Pfeil, CPA
Linda Long, CPA, CGFM
Jim Brittain, CPA
Jan Jutte
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site

www.sao.wa.gov