

Washington State Auditor's Office
Financial Statements Audit Report

City of Mukilteo
Snohomish County

Audit Period
January 1, 2007 through December 31, 2007

Report No. 1000826

Issue Date
March 16, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

March 16, 2009

Mayor and City Council
City of Mukilteo
Mukilteo, Washington

Report on Financial Statements

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

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

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, 2007 through December 31, 2007**

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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, 2007 through December 31, 2007

Mayor and 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, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 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 Mayor and City 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 last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 18, 2008

Independent Auditor's Report on Financial Statements

City of Mukilteo Snohomish County January 1, 2007 through December 31, 2007

Mayor and City 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, 2007, 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Municipal Facilities and Real Estate Excise Tax funds, 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 12 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

December 18, 2008

Financial Section

**City of Mukilteo
Snohomish County
January 1, 2007 through December 31, 2007**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007

Statement of Activities – 2007

Balance Sheet – Governmental Funds – 2007

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets – 2007

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2007

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – To the Statement of Activities – 2007

Statement of Revenues, Expenditures and Changes in the Fund Balances – Budget and Actual General Fund - 2007

Statement of Revenues, Expenditures and Changes in the Fund Balances – Budget and Actual Municipal Facilities Fund - 2007

Statement of Revenues, Expenditures and Changes in the Fund Balances – Budget and Actual Real Estate Excise Tax Fund - 2007

Statement of Net Assets – Proprietary Funds – 2007

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2007

Statement of Cash Flows – Proprietary Funds – 2007

Statement of Net Assets – Fiduciary Funds – 2007

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2007

Notes to the Financial Statements – 2007



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 year ended December 31, 2007. This information is designed to assist the reader in focusing on significant issues while providing an overview of the City's financial activity. The City encourages readers to consider this information in conjunction with additional information provided in the letter of transmittal.

Financial Highlights

- The assets of the City of Mukilteo exceeded liabilities as of December 31, 2007 by \$211,013,324. Of this amount \$33,260,483 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$2.1 million in 2007. This decrease is primarily attributable to depreciation expense. The decrease is split between governmental activities (\$2,091,853) and business-type activities (\$32,463).
- As of the close of the current fiscal year, the City of Mukilteo has no debt outstanding.
- At the end of the current fiscal year, the City of Mukilteo's governmental funds reported combined ending fund balances of \$29.8 million, an increase of \$2.9 million in comparison with the prior year. Approximately one quarter of this total amount, \$7.8 million, is *available for spending* at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$7.8 million, or 72 percent of total general fund expenditures.
- Reflected in the General Fund operating statements, general revenues that were primarily from property, sales, utility and general taxes were used to support the following major activities:
 - a. \$2,443,327 was applied to General Government purposes – City Council, Legal, Administration, and Finance;
 - b. \$5,887,909 for Public Safety – Police, Fire, and Protective Inspection;
 - c. \$266,781 for Physical Environment – Air Pollution and Environment;
 - d. \$390,812 for Transportation – Street maintenance;
 - e. \$1,129,743 for Economic Environment;
 - f. \$515,970 for Culture and Recreation – Participant Recreation, Parks and Recreation Facilities.

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. This section will introduce and explain the basic financial statements.

Government-wide financial statements

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

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

The **Statement of Net Assets** presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. This statement is similar to the balance sheet of a private sector business.



CITY OF MUKILTEO

Management's Discussion & Analysis

Over time, increases or decreases in net assets may serve as a useful indicator of improvement or deterioration in the City's overall financial position.

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

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

Fund Financial Statements

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

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

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

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

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

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

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

The enterprise fund statements provide information for the City's surface water utility. The City uses internal service funds to account for its fleet of vehicles. Because these services largely benefit governmental rather than



CITY OF MUKILTEO

Management's Discussion & Analysis

business-type functions, they have been included within the governmental activities in the government-wide financial statements.

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

The statement of net assets can serve as a useful indicator of the City's financial position. The City's net assets on December 31, 2007 total \$211 million. Following is a condensed version of the government-wide statement of net assets.

Figure 1: Condensed Statement of Net Assets

	Governmental Activities	Business-Type Activities	Total
Assets			
Current and Other Assets	\$32,157,852	\$1,102,630	\$33,260,482
Non-current assets	173,279,198	4,251,120	177,530,318
Construction in Progress (net)	1,486,159	0	1,486,159
Total Assets	206,923,209	5,353,750	212,276,959
Liabilities			
Current and Other Liabilities	622,383	20,231	642,614
Long-term Liabilities	608,873	12,148	621,021
Total Liabilities	1,231,256	32,379	1,263,635
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$174,222,431	\$4,251,120	\$178,473,551
Restricted	13,299,745	0	13,299,745
Unrestricted	18,169,777	1,070,251	19,240,028
Total Net Assets	\$205,691,953	\$5,321,371	\$211,013,324

The largest portion of the City's net assets (84.6%) reflects investment of \$178.5 million in capital assets such as land, buildings, and equipment. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The restricted portion of net assets of \$13.3 million is divided among restrictions for capital improvements of \$12.6 million (6% of total net assets) tourism promotion \$161,568 (0.1% of total net assets), and investment in joint venture of \$522,117 (0.2% of total net assets). The unrestricted portion of net assets of \$19.2 million or 9.1% of the



CITY OF MUKILTEO

Management's Discussion & Analysis

total net assets may be used to meet ongoing obligations to citizens and creditors. There are no other restrictions, commitments or limitations that significantly affect the availability of resources for future use.

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 net assets decreased approximately \$2.1 million. The decrease is split between governmental activities (\$2,091,853) and business-type activities (\$32,463).

The following is a condensed version of the City's changes in net assets. The graphs below compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities.

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

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenue:			
Charges for Services	\$4,102,509	\$1,230,133	\$5,332,642
Operating Grants and Contributions	8,652	0	8,652
General Revenues:			
Property Taxes	5,040,684	0	5,040,684
Sales Taxes	2,663,800	0	2,663,800
Other Taxes	5,799,405	0	5,799,405
Interest and Investment earnings	1,461,214	43,046	1,504,260
Other	27,820	0	27,820
Total Revenue	\$19,104,084	\$1,273,179	\$20,377,263
Expenses			
Governmental Activities			
General government	\$4,193,496	\$0	\$4,193,496
Public safety	7,370,795	0	7,370,795
Physical environment	404,866	0	404,866
Economic environment	1,169,686	0	1,169,686
Culture and recreation	931,559	0	931,559
Transportation	8,498,718	0	8,498,718
Business-Type Activities			
Surface Water Management	0	1,078,896	1,078,896
Total Expenses	\$22,569,120	\$1,078,896	\$23,648,016
Increase (Decrease) in Net Assets	(3,465,036)	194,283	(3,270,753)
Net Assets - Beginning of Year	207,783,806	5,353,834	213,137,640
Prior Year Adjustments	1,373,183	(226,746)	1,146,437
Net Assets - End of Year	\$205,691,953	\$5,321,371	\$211,013,324

Per the Statement of Activities, cost of all governmental activities in 2007 was \$22.6 million. Of this amount, \$4.1 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 \$18.5 million was the cost of governmental services paid primarily by the City's taxpayers.

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.



CITY OF MUKILTEO

Management's Discussion & Analysis

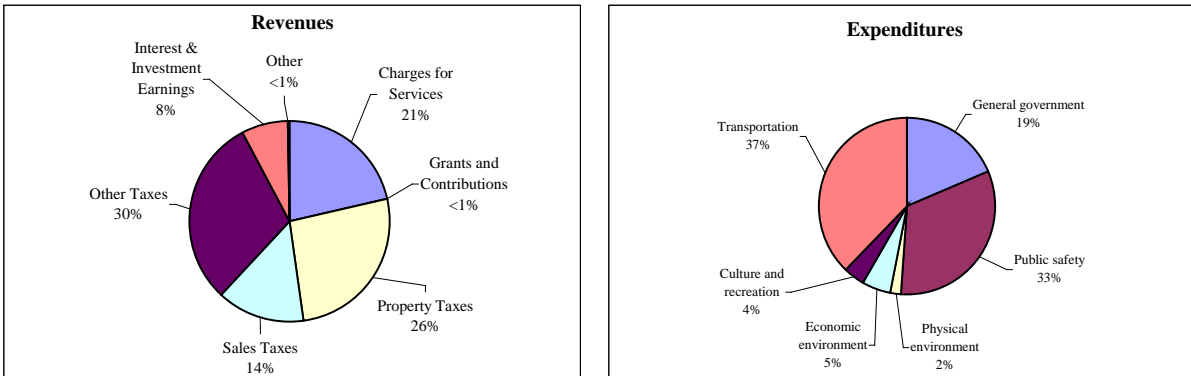
Governmental Funds

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

At the end of the current fiscal year the City's governmental funds reported ending fund balances of \$29.8 million. Approximately \$7.8 million (26.2%) of that amount constitutes unreserved fund balance, which is available for discretionary spending. The remainder of the fund balance is reserved; it is committed for various purposes and is not available for new spending.

Revenues for the governmental funds in 2007 were \$17.9 million. Expenditures were \$15 million. Overall, fund balance growth was \$2.9 million for the year.

Figure 3: Governmental Activities

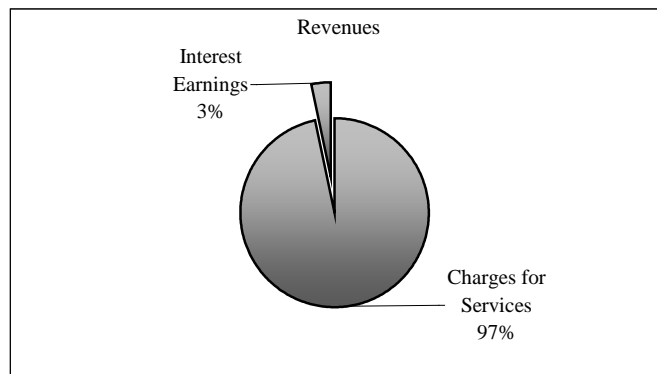


Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the City's proprietary funds have been discussed in the City's business-type activities.

Net assets of proprietary funds at the end of the year amounted to \$5.3 million. The largest portion of proprietary net assets, \$4.3 million (81.1%) reflects investment in capital assets. The remaining \$1.0 million (18.9%) represents unrestricted funds.

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



Proprietary fund revenues are primarily generated from services for which the City charges outside customers.



CITY OF MUKILTEO

Management's Discussion & Analysis

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 groups that participate in the budget process are the City Administrator, Mayor, City Council, Department Directors, Managers and interested Mukilteo citizens.

Appropriations of operating funds are reviewed and amended as needed by the City Council. During fiscal 2007 the budget was amended three times. The municipal facilities fund budget was increased \$1,025,000 - \$825,000 to purchase land adjacent to new City Hall, and \$200,000 for City Hall design costs. The general fund budget was increased \$3,257,417 - \$2,073,500 for interfund transfers, \$727,790 for personnel, \$448,100 for operating expenses, \$5,350 for sales tax audit software, and \$2,677 for a police car radio. The emergency services fund budget was increased \$195,000 for purchase of a new paramedic aid unit.

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 \$956,117. Higher than expected tax revenues and investment interest earnings are the primary reasons for the excess. Expenditures were \$678,773 below budget, mainly a result of reduced salary expenses due to unfilled positions.

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, 2007 amounts to \$178.5 million (net of accumulated depreciation).

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

	Governmental Activities	Business-type Activities	Total
Land	\$ 22,124,834	\$ 150,000	\$ 22,274,834
Art collection	175,520	-	175,520
Building	8,025,609	-	8,025,609
Improvements other than buildings	3,259,750	4,098,545	7,358,295
Machinery and Equipment	2,141,837	2,575	2,144,412
Infrastructure	137,008,722	-	137,008,722
Construction in Progress	1,486,159	-	1,486,159
	<u>\$174,222,431</u>	<u>\$4,251,120</u>	<u>\$178,473,551</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 BUDGETS

The City's 2008 budget emphasizes public safety, capital improvements, replacing older vehicles and equipment, maintaining City facilities, and the development of a Recreation and Cultural Services Department. The budget totals \$31.3 million and is an increase of 10% over 2007. Looking specifically at the General Fund, which is the source of funds for City programs such as public safety, parks and recreation, community development and public works; the proposed budget totals \$13.4 million: a 0.7% increase over 2007.



CITY OF MUKILTEO

Management's Discussion & Analysis

The primary drivers for the non-General Fund budget expenditures are capital outlays. The budget presently has \$12.9 million earmarked for capital projects, an increase of 9% over 2007. Lighthouse Park redevelopment accounts for \$3.2 million, City Hall accounts for \$7 million, equipment replacement accounts for \$531,700 and the remaining \$2.2 million is scheduled for trails, street and pedestrian improvements.

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, WA 98275, (425) 355.4141.



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$30,910,848	\$958,577	\$31,869,425
Accounts receivable, net	184,557	0	\$184,557
Taxes receivable	1,062,446	144,053	\$1,206,499
Total Current Assets:	32,157,851	1,102,630	33,260,481
Noncurrent Assets:			
Prepays	20,810	0	20,810
Investment in joint venture	522,117	0	522,117
Total Noncurrent Assets:	542,927	0	542,927
Capital Assets:			
Capital assets not being depreciated:			
Land	22,124,834	150,000	22,274,834
Art Collection	175,520	0	175,520
Construction in progress	1,486,159	0	1,486,159
Capital assets net of accumulated depreciation:			
Buildings	8,025,609	0	8,025,609
Improvements other than buildings	3,259,750	4,098,545	7,358,295
Infrastructure	137,008,722	0	137,008,722
Machinery and equipment	2,141,837	2,575	2,144,412
Total Capital Assets:	174,222,431	4,251,120	178,473,551
TOTAL ASSETS	\$206,923,209	\$5,353,750	\$212,276,959
LIABILITIES			
Accounts payable and other current liabilities	\$622,383	\$20,231	\$642,614
Non-current liabilities:			
Compensated absences	608,873	12,148	621,021
TOTAL LIABILITIES	\$1,231,256	\$32,379	\$1,263,635
NET ASSETS			
Invested in capital asset net of related debt	\$174,222,431	\$4,251,120	\$178,473,551
Restricted for:			
Tourism	161,568	0	161,568
Capital Improvements	\$12,616,060	0	12,616,060
Investment in Joint Venture	522,117	0	522,117
Unrestricted	18,169,777	1,070,251	19,240,028
TOTAL NET ASSETS	\$205,691,953	\$5,321,371	\$211,013,324

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, 2007

Page 1 of 2

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Primary government:				
Government activities:				
General government	\$4,193,496	\$2,219,610	\$0	\$0
Public safety	\$7,370,795	\$996,953	\$8,652	0
Physical environment	\$404,866	\$531,381	0	0
Economic environment	\$1,169,686	0	0	0
Culture and recreation	\$931,559	\$354,565	0	0
Transportation	\$8,498,718	0	\$0	0
Total governmental activities	22,569,120	4,102,509	8,652	0
Business-type activities:				
Surface Water Management	\$1,078,896	\$1,230,133	0	0
Total business-type activities	1,078,896	1,230,133	0	0
Total primary government	\$23,648,016	\$5,332,642	\$8,652	\$0

General Revenues:

Property taxes
Sales taxes
Utility taxes
Fuel taxes
Excise taxes
Hotel/Motel taxes
Interest and investment earnings
Miscellaneous
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, 2007

Page 2 of 2

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(\$1,973,886)	\$0	(\$1,973,886)
(6,365,190)	0	(6,365,190)
126,515	0	126,515
(1,169,686)	0	(1,169,686)
(576,994)	0	(576,994)
(8,498,718)	0	(8,498,718)
(18,457,959)	0	(18,457,959)
0	151,237	151,237
0	151,237	151,237
(\$18,457,959)	\$151,237	(\$18,306,722)
\$5,040,684	\$0	\$5,040,684
2,663,800	0	2,663,800
2,810,637	0	2,810,637
475,402	0	475,402
2,386,681	0	2,386,681
126,685	0	126,685
1,461,214	43,046	1,504,260
27,820	0	27,820
14,992,923	43,046	15,035,969
(3,465,036)	194,283	(3,270,753)
207,783,806	5,353,834	213,137,640
1,373,183	(226,746)	1,146,437
\$205,691,953	\$5,321,371	\$211,013,324

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

DECEMBER 31, 2007

	GENERAL	MUNICIPAL FACILITIES	REAL ESTATE EXCISE TAX
ASSETS			
Cash and cash equivalents	\$7,308,195	\$6,469,624	\$10,799,052
Receivables, net			
Accounts receivable	121,618	0	0
Taxes receivable	955,426	0	\$112,928
Prepays	20,810	0	0
TOTAL ASSETS	8,406,049	6,469,624	10,911,980
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	234,775	21,531	6,106
Wages payable	283,651	0	0
Other accrued liabilities	3,515	0	0
TOTAL LIABILITIES	521,941	21,531	6,106
Fund Balances:			
Reserved for:			
Prepays	20,810	0	0
Special revenue funds	0	6,448,093	0
Debt service funds	0	0	0
Capital projects funds	0	0	10,905,874
Unreserved, designated parks	8,738	0	0
Unreserved, designated self-insurance	18,578	0	0
Unreserved, undesignated, reported in:			
General fund	7,835,982	0	0
TOTAL FUND BALANCES	7,884,108	6,448,093	10,905,874
TOTAL LIABILITIES AND FUND BALANCES	8,406,049	6,469,624	10,911,980

(continued)

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS DECEMBER 31, 2007

OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$4,559,522	\$29,136,393
62,939	184,557
(5,906)	1,062,448
0	20,810
4,616,555	30,404,208
31,619	294,031
37,565	321,216
0	3,515
69,184	618,762
0	20,810
3,449,638	9,897,731
8,070	8,070
1,089,663	11,995,537
0	8,738
0	18,578
0	7,835,982
4,547,371	29,785,446
4,616,555	30,404,208

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, 2007

Total governmental fund balances 29,785,446

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. 174,222,431

These assets consist of:

Land	22,124,834
Art Collection	175,520
Construction in progress	1,486,159
Buildings	10,277,976
Improvements other than buildings	4,258,611
Infrastructure	262,944,859
Machinery and Equipment - General Government	5,090,611
Less: Accumulated Depreciation	(132,136,139)

Other long term assets used in governmental activities are not current period financial resources and therefore are not reported in the funds. 522,117

Investment in Joint Venture 522,117

Long term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds. (608,873)

These long-term liabilities consist of:

Compensated absences (608,873)

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. 1,770,832

Net assets of governmental activities 205,691,953

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, 2007

	GENERAL	MUNICIPAL FACILITIES
REVENUES		
Taxes	9,693,455	0
Licenses	1,167,154	0
Intergovernmental	361,674	0
Charges for services	866,409	0
Fines and forfeits	140,397	0
Miscellaneous	493,506	307,685
TOTAL REVENUES	12,722,595	307,685
EXPENDITURES		
Current:		
General government services	2,443,327	0
Public safety	5,887,909	0
Physical environment	266,781	0
Transportation	390,812	0
Economic environment	1,129,743	0
Culture and recreation	515,970	0
Capital outlay	179,502	1,206,125
TOTAL EXPENDITURES	10,814,044	1,206,125
Excess (deficiency) of revenues over expenditures	1,908,551	(898,440)
OTHER FINANCING SOURCES (USES):		
Transfers in	69,559	1,521,000
Transfers out	(2,073,500)	0
TOTAL OTHER FINANCING SOURCES (USES)	(2,003,941)	1,521,000
Net change in fund balances	(95,390)	622,560
Fund balances - beginning	7,951,162	5,825,533
Prior period adjustment	28,336	0
FUND BALANCES - ENDING	7,884,108	6,448,093

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, 2007

REAL ESTATE EXCISE TAX	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
2,028,628	958,945	12,681,028
0	0	1,167,154
0	475,402	837,076
0	512,113	1,378,522
0	0	140,397
499,533	403,778	1,704,502
2,528,161	2,350,238	17,908,679
0	0	2,443,327
0	1,116,130	7,004,039
0	61,972	328,753
0	236,784	627,596
0	12,574	1,142,317
0	190,978	706,948
499,469	850,573	2,735,669
499,469	2,469,011	14,988,649
2,028,692	(118,773)	2,920,030
0	552,500	2,143,059
0	(69,559)	(2,143,059)
0	482,941	0
2,028,692	364,168	2,920,030
8,877,182	4,209,916	26,863,793
0	(26,713)	1,623
10,905,874	4,547,371	29,785,446

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, 2007

Net change in fund balances - total governmental funds **2,920,030**

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. (6,257,055)

This is comprised of:

Capital outlays 2,735,668
Current year depreciation (8,992,723)

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. (118,978)

This is comprised of:

Accrued compensating absence expense (118,978)

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. (9,033)

Change in net assets of governmental activities **(3,465,036)**

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, 2007

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Taxes	\$9,104,000	\$9,104,000	9,693,455	\$589,455
Licenses	1,138,000	1,139,000	1,167,154	28,154
Intergovernmental	355,900	358,577	361,674	3,097
Charges for services	827,300	848,200	866,409	18,209
Fines and forfeits	85,200	85,200	140,397	55,197
Miscellaneous	223,000	231,500	493,506	262,006
TOTAL REVENUES	11,733,400	11,766,477	12,722,595	956,119
EXPENDITURES				
Current:				
General government services	2,272,273	2,595,130	2,443,327	(151,803)
Public safety	5,805,000	6,254,995	5,887,909	(367,086)
Physical environment	224,000	222,000	266,781	44,781
Transportation	403,900	403,900	390,812	(13,088)
Economic environment	914,700	1,311,725	1,129,743	(181,982)
Culture and recreation	528,400	538,840	515,970	(22,870)
Capital outlay	166,227	166,227	179,502	13,275
TOTAL EXPENDITURES	10,314,500	11,492,817	10,814,044	(678,774)
Excess (deficiency) of revenues over expenditures	1,418,900	273,660	1,908,551	1,634,894
OTHER FINANCING SOURCES (USES):				
Transfers in	0	69,500	69,559	59
Transfers out	0	(2,073,500)	(2,073,500)	0
TOTAL OTHER FINANCING SOURCES USES)	0	(2,004,000)	(2,003,941)	59
Net change in fund balances	1,418,900	(1,730,340)	(95,390)	1,634,953
Fund balances - beginning	5,629,200	5,629,200	7,951,162	2,321,962
Prior period adjustment	0	0	28,336	28,336
FUND BALANCES - ENDING	\$7,048,100	\$3,898,860	7,884,108	\$3,985,251

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, 2007

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Miscellaneous	150,000	150,000	307,685	157,685
TOTAL REVENUES	150,000	150,000	307,685	157,685
EXPENDITURES				
Current:				
Capital outlay	5,000,000	6,025,000	1,206,125	(4,818,875)
TOTAL EXPENDITURES	5,000,000	6,025,000	1,206,125	(4,818,875)
Excess (deficiency) of revenues over expenditures	(4,850,000)	(5,875,000)	(898,440)	4,976,560
OTHER FINANCING SOURCES (USES):				
Transfers in	1,521,000	1,521,000	1,521,000	0
TOTAL OTHER FINANCING SOURCES USES)	1,521,000	1,521,000	1,521,000	0
Net change in fund balances	(3,329,000)	(4,354,000)	622,560	4,976,560
Fund balances - beginning	5,825,533	5,825,533	5,825,533	0
FUND BALANCES - ENDING	2,496,533	1,471,533	6,448,093	4,976,560

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, 2007

	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET Positive/ (Negative)
REVENUES				
Taxes	2,500,000	2,500,000	2,028,628	(471,372)
Miscellaneous	250,000	250,000	499,533	249,533
TOTAL REVENUES	2,750,000	2,750,000	2,528,161	(221,839)
EXPENDITURES				
Current:				
Capital outlay	2,726,000	2,726,000	499,469	(2,226,532)
TOTAL EXPENDITURES	2,726,000	2,726,000	499,469	(2,226,532)
Excess (deficiency) of revenues over expenditures	24,000	24,000	2,028,692	2,004,693
Net change in fund balances	24,000	24,000	2,028,692	2,004,693
Fund balances - beginning	8,764,470	8,764,470	8,877,182	112,712
FUND BALANCES - ENDING	8,788,470	8,788,470	10,905,874	2,117,404

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

DECEMBER 31, 2007

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS	(GOVERNMENTAL ACTIVITIES)
	SURFACE WATER MANAGEMENT	INTERNAL SERVICE FUNDS
ASSETS		
Current assets:		
Cash and cash equivalents	\$958,577	\$1,774,454
Accounts receivable, net	144,053	0
Total Current Assets	1,102,630	1,774,454
Capital assets, net		
Land	150,000	0
Other improvements	4,098,545	0
Machinery and equipment	2,575	1,597,219
Total Noncurrent Assets	4,251,120	1,597,219
TOTAL ASSETS	\$5,353,750	\$3,371,673
LIABILITIES		
Current Liabilities		
Accounts Payable	\$3,693	\$3,622
Wages payable	16,538	0
Total Current Liabilities	20,231	3,622
Noncurrent Liabilities		
Compensated Absences	12,148	0
Total Noncurrent Liabilities	12,148	0
TOTAL LIABILITIES	\$32,379	\$3,622
FUND EQUITY		
Invested in capital assets, net of related debt	\$4,251,120	\$1,597,219
Restricted	0	381,983
Unrestricted	1,070,251	1,388,849
TOTAL FUND EQUITY	5,321,371	3,368,051
TOTAL LIABILITIES AND NET ASSETS	\$5,353,750	\$3,371,673

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, 2007

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS SURFACE WATER MANAGEMENT	(GOVERNMENTAL ACTIVITIES) INTERNAL SERVICE FUNDS
OPERATING REVENUE:		
Charges for services	\$1,230,133	\$1,195,406
Total Operating Revenues	1,230,133	1,195,406
OPERATING EXPENSES:		
Personnel services	352,152	818,679
Supplies	30,307	0
Other services and charges	386,671	126,471
Intergovernmental services	56,104	0
Depreciation	253,662	259,289
TOTAL OPERATING EXPENSES	1,078,896	1,204,439
Operating Income (Loss)	151,237	(9,033)
NON-OPERATING REVENUE (EXPENSES):		
Investment interest revenues	43,046	0
TOTAL NON-OPERATING REVENUES (EXPENSES)	43,046	0
Income (Loss) Before		
Contributions and Transfers	194,283	(9,033)
Transfers in	0	0
NET INCOME (LOSS)	194,283	(9,033)
NET EQUITY - BEGINNING	5,353,834	2,747,642
Prior Period Adjustment	(226,746)	629,442
NET EQUITY - ENDING	\$5,321,371	\$3,368,051

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, 2007

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	\$1,227,315	\$1,195,406
Payments to suppliers	(478,023)	(122,621)
Payments to employees	(345,520)	(818,679)
NET CASH PROVIDED BY OPERATING ACTIVITIES	403,772	254,106
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	217,269	(826,497)
NET CASH PROVIDED BY CAPITAL FINANCING ACTIVITIES	217,269	(826,497)
CASH FLOW FROM INVESTING ACTIVITIES:		
Investment income	43,046	0
NET CASH PROVIDED BY INVESTING ACTIVITIES	43,046	0
Net Increase (Decrease) in Cash and Cash Equivalents	664,087	(572,391)
Cash and Cash Equivalents, January 1	521,579	1,716,863
CASH AND CASH EQUIVALENTS, DECEMBER 31	1,185,666	1,144,472
Current Cash and Cash Equivalents	958,577	1,774,454
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$958,577	\$1,774,454

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, 2007

Page 2 of 2

	BUSINESS ACTIVITIES - ENTERPRISE FUNDS	(GOVERNMENTAL ACTIVITIES)
	SURFACE WATER MANAGEMENT	INTERNAL SERVICE FUNDS
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$151,237	(\$9,033)
Adjustments to Reconcile Operating Income to Net Cash Provided (used by Operating Activities)		
Depreciation	253,662	259,289
Change in Current Assets and Liabilities		
(Increase) decrease in receivables	(2,818)	0
Increase (decrease) in accounts payable	1,691	3,850
TOTAL ADJUSTMENTS	252,535	263,139
NET CASH PROVIDED BY OPERATING ACTIVITIES	403,772	254,106
SCHEDULE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Non-Cash Financing, Capital and Investing Activities:		
Prior period corrections	226,746	629,442
TOTAL NON-CASH ACTIVITIES	\$226,746	\$629,442

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Basic Financial Statements

STATEMENT OF NET ASSETS FIDUCIARY FUNDS DECEMBER 31, 2007

ASSETS AND OTHER DEBITS	
Cash and cash equivalents	167,723
Accounts receivable	6,666
TOTAL ASSETS	174,389
LIABILITIES	
Other liabilities	161,625
FUND BALANCE	
Unreserved, undesignated	12,764
TOTAL LIABILITIES AND FUND BALANCE	174,389

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, 2007

ADDITIONS:	
WST-Traffic fines	234,041
Sno County Crime Victims Comp	2,508
Investment earnings	4,945
TOTAL ADDITIONS	241,494
DEDUCTIONS:	
WST-Traffic fines	160,639
Sno County Crime Victims Comp	2,508
Mukilteo TVB share	73,082
TOTAL DEDUCTIONS	236,229
CHANGE IN NET ASSETS	5,265
Net Assets - Beginning	7,499
NETS ASSETS - ENDING	12,764

The accompanying notes are an integral part of this statement



CITY OF MUKILTEO

Notes 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

Notes 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

Notes 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

Notes 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

Notes 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

Notes 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

Notes 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, 2007, \$3,324 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

Notes 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, 2007, 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	30
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
Notes 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 126 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 \$12 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$15 million per occurrence subject to aggregate limits in the excess layers. 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

Notes 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 2006 and 2007 were:

Year Ended December 31	Beginning of Year Liability	Current year Claims & Changes in Estimates	Claim Payments	Balance at Year End
2006	\$ 82,069.00	\$ 116,296.00	\$ (58,979.00)	\$ 139,386.00
2007	\$ 139,386.00	\$ 97,747.00	\$ (76,142.00)	\$ 160,991.00

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, \$29,785,446, differs from net assets of governmental activities, \$205,691,953, 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

Notes to the Financial Statements

Costs of Capital Assets	\$ 306,358,570
Accumulated Depreciation	<u>(132,136,138)</u>
	<u>\$ 174,222,431</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	\$ 522,117
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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.

Compensated Absences	\$ 608,873
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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	\$ 3,368,051
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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, \$2,920,030, differs from the change in net assets for governmental activities (\$3,465,036) 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	\$ 2,735,668
Current Year Depreciation	<u>(8,992,723)</u>
Change in Net Assets	<u>\$ (6,257,055)</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	\$ 1,195,406
Expenditures & Other Uses	<u>(1,204,439)</u>
Change in Net Assets	<u>\$ (9,033)</u>

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

Transfers Out	\$ (2,143,059)
Transfers In	<u>2,143,059</u>
	<u>\$ -</u>



CITY OF MUKILTEO
Notes to the Financial Statements

Note 3 – Cash and Investments

As of December 31, 2007, the City held the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Local Government Investment Pool	\$31,366,462	-
Total Fair Value	\$31,366,462	

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 2007, the City invested only in the Washington State Local Government Investment Pool.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City limits its exposure to concentration risk by investing in U.S. government obligations or U.S. government agency securities. The maximum to be invested in any one issuer is as follows:

Security Type	Portfolio Max.
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).



CITY OF MUKILTEO

Notes to the Financial Statements

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	\$30,910,848	\$958,577	\$31,869,425	\$167,723	\$32,037,148
	\$30,910,848	\$958,577	\$31,869,425	\$167,723	\$32,037,148

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.

Note 5 – Receivables and Payables

Receivables at December 31, 2007, are as follows:

	Accounts			Total
	Receivable	Taxes Receivable	Other	
Governmental Activities				
General Fund	\$121,618	\$955,426	\$0	\$1,077,044
Municipal Facilities Fund	0	0	0	0
Real Estate Excise Tax Fund	0	112,928	0	112,928
Other Governmental Funds	62,939	(5,906)	0	57,033
Internal Service	0	0	0	0
Total Governmental Activities	\$184,557	\$1,062,448	\$0	\$1,247,005
Business-type Activities				
Surface Water Fund	\$144,053	\$0	\$0	\$144,053
Internal Service Funds	\$0	\$0	\$0	\$0
Total Business-type Activities	\$144,053	\$0	\$0	\$144,053



CITY OF MUKILTEO
Notes to the Financial Statements

Payables at December 31, 2007, are as follows:

	Accounts Payable	Wages Payable	Other	
Governmental Activities				
General Fund	\$234,775	\$283,651	\$3,515	\$521,941
Municipal Facilities Fund	21,531	0	0	21,531
Real Estate Excise Tax Fund	6,106	0	0	6,106
Other Governmental Funds	31,619	37,565	0	69,184
Total Governmental Activities	\$294,031	\$321,216	\$3,515	\$618,762
Business-type Activities				
Surface Water Fund	\$3,693	\$28,686	\$0	\$32,379
Total Business-type Activities	\$3,693	\$28,686	\$0	\$32,379

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, 2007, no funds had an accumulated fund deficit.

For the year ended December 31, 2007, no expenditures exceeded budget at the program level (i.e. the controlled level of budgetary control) in any funds.

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 [\\$191,773,296 of restricted assets, of which \\$161,568 is restricted by enabling legislation.](#)

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or 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.

For the year ended December 31, 2007, there were fund reservations for prepaid items, special revenue funds, debt service and capital projects funds as shown on the governmental fund financial statements.



CITY OF MUKILTEO

Notes to the Financial Statements

Note 9 – Capital Assets

Capital asset activity for the year ended December 31, 2007 follows:

Governmental Activities				
Capital assets, not being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Land	21,316,642	851,172	42,981	22,124,834
Art Collections	174,635	885	-	175,520
Construction in Progress	730,252	2,362,020	1,606,113	1,486,159
Total capital assets, not being depreciated:	<u>22,221,529</u>	<u>3,214,078</u>	<u>1,649,093</u>	<u>23,786,513</u>
Capital assets, being depreciated:				
Building	10,312,427	16,549	51,000	10,277,976
Other Improvements	4,361,369	193,571	296,329	4,258,611
Machinery and Equipment	2,927,634	2,971,516	808,539	5,090,611
Infrastructure	261,428,710	1,516,148	0	262,944,859
Total capital assets being depreciated:	<u>279,030,141</u>	<u>4,697,784</u>	<u>1,155,868</u>	<u>282,572,057</u>
Less accumulated depreciation for:				
Buildings	(1,983,428)	(280,160)	11,220	(2,252,368)
Improvements other than buildings	(909,310)	(184,382)	94,831	(998,861)
Machinery and Equipment	(1,412,072)	(1,897,554)	360,852	(2,948,774)
Infrastructure	(117,899,977)	(8,036,159)	-	(125,936,136)
Total accumulated depreciation:	<u>(122,204,787)</u>	<u>(10,398,255)</u>	<u>466,903</u>	<u>(132,136,138)</u>
Total capital assets, being depreciated, net:	<u>156,825,355</u>	<u>(5,700,471)</u>	<u>1,622,771</u>	<u>150,435,918</u>
Governmental activities capital assets, net:	<u>179,046,883</u>	<u>(2,486,393)</u>	<u>3,271,864</u>	<u>174,222,431</u>

(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	1,891,418	2,368,993	112,473	4,147,938
Less accumulated depreciation for:				
Machinery & Equipment	(860,867)	(1,706,708)	16,856	(2,550,719)
Internal Services Assets, Net:	<u>1,030,551</u>	<u>662,285</u>	<u>129,329</u>	<u>1,597,219</u>

Business-type Activities:				
Capital assets, not being depreciated:	Beginning Balance	Increases	Decreases	Ending Balance
Land	150,000	-	-	150,000
Construction in Progress	18,000	-	18,000	-
Total capital assets, not being depreciated:	<u>168,000</u>	<u>-</u>	<u>18,000</u>	<u>150,000</u>
Capital assets, being depreciated:				
Other Improvements	2,497,063	21,142	-	2,518,205
Other Improvements - Contractor Contributions	3,035,681	-	220,411	2,815,270
Machinery and Equipment	19,374	-	-	19,374
Total capital assets being depreciated:	<u>5,552,117</u>	<u>21,142</u>	<u>220,411</u>	<u>5,352,848</u>
Less accumulated depreciation for:				
Other Improvements	(595,262)	(214,921)	342	(809,841)
Other Improvements Contractor Contributions	(387,552)	(37,537)	-	(425,089)
Machinery and Equipment	(15,594)	(1,203)	-	(16,798)
Total accumulated depreciation:	<u>(998,408)</u>	<u>(253,662)</u>	<u>342</u>	<u>(1,251,728)</u>
Total capital assets, being depreciated, net:	<u>4,553,709</u>	<u>(232,520)</u>	<u>220,753</u>	<u>4,101,120</u>
Business activities capital assets, net:	<u>4,721,709</u>	<u>(232,520)</u>	<u>238,753</u>	<u>4,251,120</u>



CITY OF MUKILTEO
Notes to the Financial Statements

Depreciation Expense by Function

GOVERNMENTAL ACTIVITIES

General Government	\$ 583,654
Public Safety	250,341
Utilities & Environment	71,270
Economic Environment	3,227
Culture & Recreation	216,287
Transportation	<u>7,867,944</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 8,992,723</u></u>

BUSINESS-TYPE ACTIVITIES

Surface Water	\$ 253,662
Total depreciation expense - Business-type activities	<u><u>\$ 253,662</u></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 are direct obligations and pledge the full faith and credit of the City. No general obligation bonds are outstanding.

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. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. No revenue bonds are outstanding.

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, 2007 totaled \$3,324, with \$3,324 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*.



CITY OF MUKILTEO

Notes to the Financial Statements

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 2 or PERS 3.

The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. 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.



CITY OF MUKILTEO

Notes to the Financial Statements

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.

The required contribution rates expressed as a percentage of current year covered payroll for fiscal year 2007 were as follows:

Contributor	PERS 1 Required	PERS 2 Required	PERS 3 Required	
Employer	5.46%	5.46%	5.46%	01/01/07-06/30/07
Employee	6.00%	3.50%	Choice of 7 rates 5-15%	01/01/07-06/30/07
Total	11.46%	8.96%	N/A	01/01/07-06/30/07
Employer	6.12%	6.12%	6.12%	07/01/07-08/31/07
Employee	6.00%	4.15%	Choice of 7 rates 5-15%	07/01/07-08/31/07
Total	12.12%	10.27%	N/A	07/01/07-08/31/07
Employer	6.13%	6.13%	6.13%	09/01/07-12/31/07
Employee	6.00%	4.15%	Choice of 7 rates 5-15%	09/01/07-12/31/07
Total	12.12%	10.27%	N/A	09/01/07-12/31/07

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$ 4,334	\$103,819	\$ 27,683
2006	\$ 3,757	\$ 46,744	\$ 12,193
2005	\$ 2,870	\$ 25,353	\$ 6,496

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%



CITY OF MUKILTEO

Notes to the Financial Statements

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).

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, 2007, were as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.35%
Employee	0.00%	8.64%

*The employer rates include the employer administrative expense fee currently set at 0.16%.

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
2007	\$0	\$177,272
2006	\$0	\$129,778
2005	\$0	\$96,773

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



CITY OF MUKILTEO

Notes to the Financial Statements

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 \$21,608 were incurred for post retirement health care insurance and \$1,501 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, 2007, 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:

Operating Transfers In		Operating Transfers Out	
Technology Replacement Fund	\$100,000	General Fund	\$100,000
EMS Fund	\$195,000	General Fund	\$195,000
Municipal Facilities Fund	\$1,521,000	General Fund	\$1,521,000
Community Center Fund	\$7,500	General Fund	\$7,500
Paine Field Reserve Fund	\$250,000	General Fund	\$250,000
General Fund	\$21,069	Library Bond Redemption Fund	\$21,069
General Fund	\$48,490	Fire Refund Bond Fund	\$48,490
Total	\$2,143,059	Total	\$2,143,059



CITY OF MUKILTEO

Notes to the Financial Statements

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, 2007 was [\\$522,117](#).

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.

Note 16 – Commitments

The City is committed to two separate commitment projects, reconstruction of Lighthouse Park and construction of a new City Hall. Lighthouse Park Phase I is the first of four phases, and includes new restroom facilities, new parking, a playground parking and landscaping. Phase I is scheduled for completion in the summer of 2008, and the total contracted commitment is \$3.2 million. The City contracted to construct a new City Hall valued at \$7.5 million. The new facility is scheduled for completion in December 2008, and will replace the current leased facility.

Note 17 – Prior Period Adjustments

Prior period adjustments were made as follows:

Accounts Receivable was overstated due to previous accruals that were not reversed. Adjustments were made to properly reflect the correct 2007 receivables.

Accounts Payable was overstated due to previous salary increase liability accruals that were not reversed. Adjustments were made to properly reflect the correct 2007 payables.

Fixed Asset records were reviewed and reconciled. It was determined that several depreciation calculations were incorrect and various additions to fixed assets were not adequately documented. Adjustments were made to correct these errors.

Each of these issues has been resolved. In addition, the City has purchased a Fixed Asset module that will assist in correcting these issues in the future.

Detail by fund type is as follows:



CITY OF MUKILTEO
Notes to the Financial Statements

Governmental-type Activities

General Fund	
Tax Revenues Correction to Accruals/Reversals	33,379
Salary Liability reversal of accruals	173,119
Correct Customer AR Balance to reflect Current Balance	(178,162)
	<u>28,336</u>
Other Governmental Funds	
Salary Liability reversal of accruals	8,070
	<u>8,070</u>
Emergency Medical Services	
Correct Customer AR Balance to reflect Current Balance	(34,783)
	<u>(34,783)</u>
Equipment Replacement Reserve	
Deletions to Fixed Assets for items that did not meet Capitalization Requirements	(20,554)
Additions to Fixed Assets for those items not previously Capitalized that meet Capitalization Requirements	2,081,026
Correction to Fixed Assets for items that did not have supporting documentation	934
Accumulated Depreciation adjustment for those items that were not previously Capitalized	(1,431,496)
Correction to Fixed Assets for items that did not have supporting documentation	(467)
	<u>629,442</u>
Entity Wide	
Delete unidentified Land Line Items	(42,981)
Adjustment for Lighthouse Refurbishing not transferred from CIP to Other Improvements in a timely manner	(10,115)
Adjustment for Rosehill Improvements not transferred from CIP to Other Improvements in a timely manner	(687)
Adjustment for item's Accumulated Depreciation that was moved to Other Improvements prior to project completion	4,108
Deletion of Fixed Asset items (SERS) that should not have been capitalized. These items are accounted for in Joint Ventures.	(502,487)
Addition to Fixed Asset that was no previously capitalized	6,500
Adjustment to Accumulated Depreciation of SERS items	259,405
Formula error to Depreciation Expense in prior years	(3,112)
Adjustment to CIP - Budget Adjustments had been calculated into actual project costs	1,133,108
Addition to Art not previously added to collection	885
Rounding Errors to adjust balance	(0)
Adjustment to Accumulated depreciation for CIP items not moved to Sidewalks in a timely manner	(51,308)
Adjustment to Accumulated depreciation for CIP items not moved to Streets in a timely manner	(51,198)
Total Governmental-Type Activities	<u><u>742,118</u></u>



CITY OF MUKILTEO

Notes to the Financial Statements

Business-Type Activities	
Calculation Error in Other Improvements	(\$220,411)
Calculation Error in Other Improvements Accum Deprec	\$342
Salary Liability reversal of accruals	\$8,150
Correct Customer AR Balance to reflect Current Balance	(\$14,827)
Total Business-Type Activities	(\$226,746)



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 employees are located around the state to deliver our services effectively and efficiently.

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

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

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Deputy Chief of Staff
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