



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements Audit Report**

**Mukilteo Water and Wastewater  
District**

**Snohomish County**

**For the period January 1, 2012 through December 31, 2013**

**Published December 31, 2014**

**Report No. 1013370**





**Washington State Auditor**  
**Troy Kelley**

December 31, 2014

Board of Commissioners  
Mukilteo Water and Wastewater District  
Mukilteo, Washington

**Report on Financial Statements**

Please find attached our report on the Mukilteo Water and Wastewater District's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Mukilteo Water and Wastewater District  
Snohomish County  
January 1, 2012 through December 31, 2013**

Board of Commissioners  
Mukilteo Water and Wastewater District  
Mukilteo, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Mukilteo Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District'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*.

## **PURPOSE OF THIS REPORT**

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



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 12, 2014

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Mukilteo Water and Wastewater District Snohomish County January 1, 2012 through December 31, 2013**

Board of Commissioners  
Mukilteo Water and Wastewater District  
Mukilteo, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Mukilteo Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mukilteo Water and Wastewater District, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 12, 2014

## FINANCIAL SECTION

**Mukilteo Water and Wastewater District  
Snohomish County  
January 1, 2012 through December 31, 2013**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2013 and 2012

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses and Changes in Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

**INTRODUCTION**

Mukilteo Water and Wastewater District was founded in 1920 and provides water and wastewater services to customers residing within the District boundaries. Our mission is to provide safe, quality service and excellent customer service in a reliable, cost effective manner.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2013 and 2012 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements include a statement of net position, statement of revenues, expenses and changes in fund net position, statement of cash flows and notes to the financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents the results of the District's business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate our profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

*CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31*

	<u>2013</u>	<u>2012</u>	<u>Restated * 2011</u>
Capital assets	\$ 92,145,824	\$ 88,873,562	\$ 86,603,259
Other assets	15,402,038	18,437,633	18,295,371
Total assets	<u>\$ 107,547,862</u>	<u>\$ 107,311,195</u>	<u>\$ 104,898,630</u>
Deferred outflows of resources	<u>\$ 17,022</u>	<u>\$ 21,242</u>	<u>\$ 26,025</u>
Long-term liabilities	\$ 22,226,913	\$ 23,416,136	\$ 21,515,986
Other liabilities	3,458,855	3,797,852	3,611,450
Total liabilities	<u>\$ 25,685,768</u>	<u>\$ 27,213,988</u>	<u>\$ 25,127,436</u>
Deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net investment in capital assets	\$ 68,398,861	\$ 66,646,054	\$ 65,601,447
Restricted amounts	1,325,481	1,255,414	1,146,058
Unrestricted amounts	12,154,774	12,216,981	13,049,714
Total net position	<u>\$ 81,879,116</u>	<u>\$ 80,118,449</u>	<u>\$ 79,797,219</u>

*CONDENSED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31*

	<u>2013</u>	<u>2012</u>	<u>Restated * 2011</u>
Wastewater service revenue	\$ 6,556,929	\$ 6,258,645	\$ 5,875,458
Water service revenue	3,460,418	3,189,130	2,921,941
Other wastewater operating revenues	91,708	107,336	110,155
Other water operating revenues	212,343	290,206	321,439
Total operating revenues	<u>10,321,398</u>	<u>9,845,317</u>	<u>9,228,993</u>
Wastewater operating expenses	2,010,816	1,864,385	1,859,608
Water operating expenses	1,440,207	1,497,272	1,501,484
General and administrative expenses, wastewater	1,507,819	1,337,836	1,125,327
General and administrative expenses, water	918,166	948,159	894,682
Depreciation, wastewater	2,030,742	1,975,746	1,925,951
Depreciation, water	675,888	587,819	567,623
Total operating expenses	<u>8,583,638</u>	<u>8,211,217</u>	<u>7,874,675</u>
Operating income	1,737,760	1,634,100	1,354,318
Non-operating revenue:			
Interest	36,535	46,361	53,563
Non-operating expenses:			
Bond issue costs	-	(50,108)	-
Interest and amortization	(317,341)	(243,294)	(298,083)
Net loss on disposal of assets	(549,183)	(1,373,041)	(106,621)
Income before capital contributions	907,771	14,018	1,003,177
Capital contributions	852,896	307,212	584,866
Increase in net position, as restated	<u>\$ 1,760,667</u>	<u>\$ 321,230</u>	<u>\$ 1,588,043</u>

\* Restatement due to implementation of GASB Statement No. 65. Refer to note 1 of the notes to the financial statements for additional information.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

**FINANCIAL POSITION**

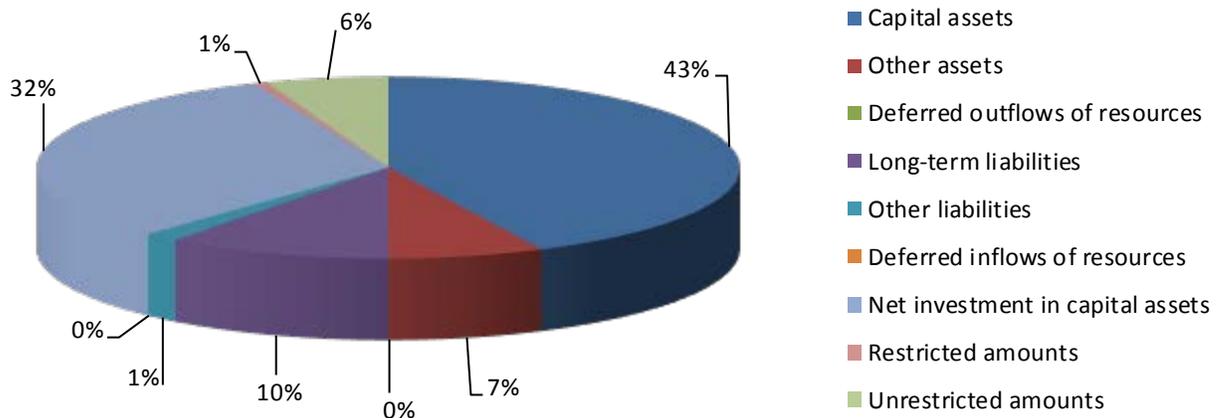
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets are increasing due to growth in the District's customer base and upgrades to the District's water and wastewater system.

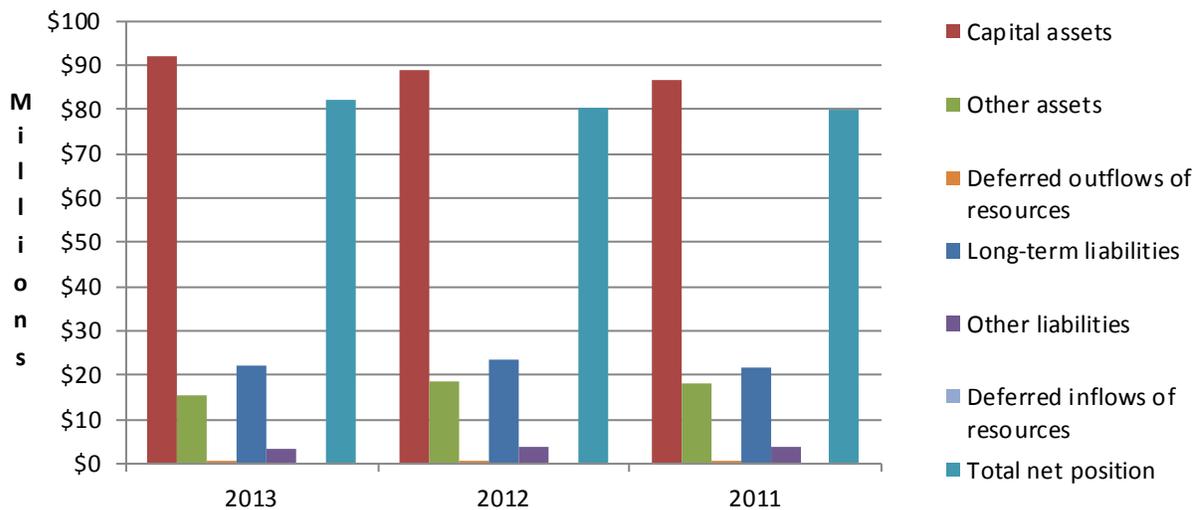
The District is located in Snohomish County, Washington.

The following charts indicate the components of financial position:

**2013 STATEMENT OF NET POSITION**



**COMPARATIVE STATEMENT OF NET POSITION**



**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

**RESULTS OF OPERATIONS**

Operating revenues are received principally from two sources: water service and wastewater service. The following chart indicates operating revenue over the last three years:



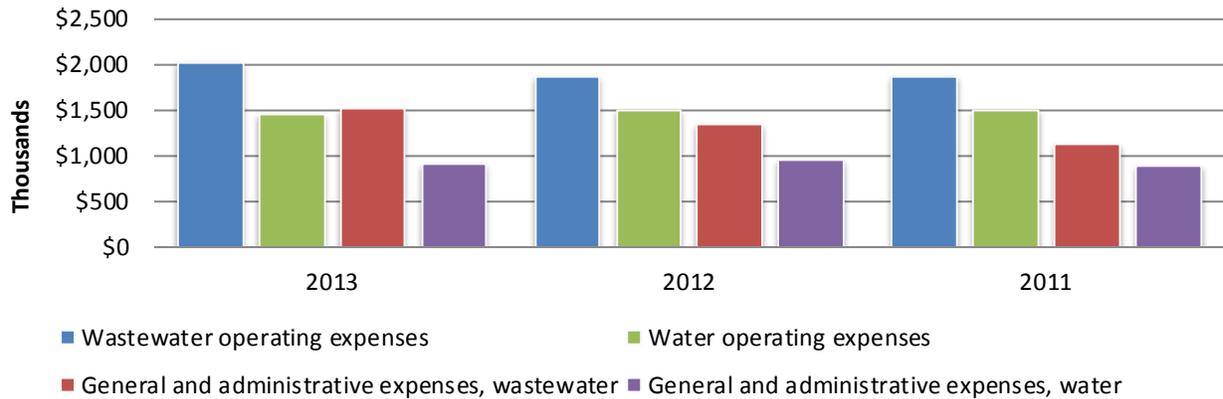
The increase in water and wastewater revenues in 2013 and 2012 were primarily due to rate increases.

The rate increases were necessary due to inflationary increases in expenses and increases in long-term debt payments.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

The following chart indicates operating expenses over the last three years:

### OPERATING EXPENSES



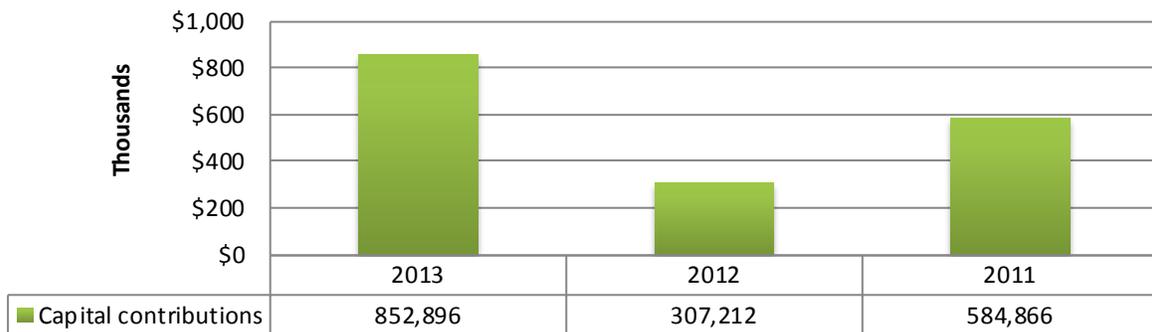
Expenses increased in 2013 primarily due to increases in payroll and related costs and depreciation expense. Expenses increased in 2012 primarily due to increases in payroll and related costs and professional fees incurred to negotiate a wholesale contract with Paine Field.

The District operated at a profit in 2013, 2012 and 2011. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

The following chart indicates capital contributions over the last three years:

### CAPITAL CONTRIBUTIONS



The contributions are indicative of the growth of the District and include donated systems totaling \$225,224, \$67,350 and \$309,850 for the years ended December 31, 2013, 2012 and 2011, respectively. Capital contributions decreased in 2012 due to the slowdown in the economy and began to increase in 2013 due to the improving economy.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013 AND 2012**

**CAPITAL ASSETS AND LONG-TERM DEBT**

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

<u>2013</u>		<u>2012</u>	
SCADA Master Plan and System Improvements	\$ 906,764	SCADA Master Plan and System Improvements	\$ 78,743
Headworks	2,353,583	Headworks	2,232,727
Outfall	736,251	Outfall	91,940
112 <sup>th</sup> St Lift Station Improvements	268,407	112 <sup>th</sup> St Lift Station Improvements	335,483
CIP Expansion – City of Everett	52,013	CIP Expansion – City of Everett	113,488
WWTF Road Repair	551,711	Paine Field Water Supply	2,176,933
WWTF Gabion Wall Repair	490,056	Security Improvements	140,813
Clarifier/Digester/Solids Handling	101,400	Effluent Filter	103,861
WWTF Fire Protection & Suppression	93,479	Lift Station 10 - Property Acquisition	574,428
S-7 Rail System	133,946	Donated Systems	67,350
Water System Improvements - Airport Road	77,059		
Donated Systems	225,224		

The decrease in long-term debt in 2013 was due to principal payments made by the District in excess of new borrowings. The increase in long-term debt in 2012 was due to issuance of \$3,420,000 in water and wastewater revenue bonds.

See notes 4, 5, and 6 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2013, the District has \$9,337,318 of cash and investments set aside in construction, capital improvement and capital replacement accounts of which \$-0- is committed under existing contracts.

The District is committed to pay a portion of certain City of Everett projects. See note 7 in the financial statements for the District's estimated share of these projects over the next 10 years.

**ADDITIONAL COMMENTS**

The District is dependent on other governments for wholesale water and for treatment of a portion of the wastewater collected by the District. The cost for this product and service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct costs.

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for over ten years. See note 13 in the financial statements for more details.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>	<u>2013</u>	<u>2012</u>
<i>Current assets:</i>		
Unrestricted:		
Cash	\$ 565,461	\$ 428,017
Investments	11,106,212	11,213,285
Accounts receivable	1,793,251	1,862,908
Reimbursement receivable	-	186,094
Contract receivable, current portion	13,063	13,063
Inventory	266,073	255,388
Prepaid expenses	137,676	101,186
	<u>13,881,736</u>	<u>14,059,941</u>
Restricted:		
Investments	1,012,322	3,832,869
Interest receivable	26,063	22,154
Assessments receivable - current portion	39,563	38,484
	<u>1,077,948</u>	<u>3,893,507</u>
Total current assets	<u>14,959,684</u>	<u>17,953,448</u>
<i>Non-current assets:</i>		
Unrestricted:		
Contract receivable, less current portion	<u>86,283</u>	<u>99,346</u>
Restricted:		
Assessments receivable, less current portion	<u>356,071</u>	<u>384,839</u>
Capital assets not being depreciated:		
Land, land rights and other	1,723,001	1,701,112
Construction in progress	961,142	4,605,046
Capital assets being depreciated:		
Plant in service	125,857,372	118,048,556
Less accumulated depreciation	<u>(36,395,691)</u>	<u>(35,481,152)</u>
Net capital assets	<u>92,145,824</u>	<u>88,873,562</u>
Total non-current assets	<u>92,588,178</u>	<u>89,357,747</u>
Total assets	<u>107,547,862</u>	<u>107,311,195</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding of debt	<u>17,022</u>	<u>21,242</u>
Total deferred outflows of resources	<u>17,022</u>	<u>21,242</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 107,564,884</u>	<u>\$ 107,332,437</u>

See accompanying notes to the financial statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013 AND 2012**

<b>LIABILITIES</b>	<u>2013</u>	<u>2012</u>
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 1,309,373	\$ 1,452,446
Accrued salaries and benefits	47,487	46,319
Accrued compensated absences	288,254	307,496
Customer deposits	45,750	34,750
Deposits for construction	63,518	65,727
Retainage payable	25,426	538
Accrued interest	33,437	35,030
Long-term debt - current maturities	<u>1,017,072</u>	<u>996,876</u>
	<u>2,830,317</u>	<u>2,939,182</u>
 Payable from restricted assets:		
Accounts payable	13,108	254,909
Accrued interest	95,430	98,761
Long-term debt - current maturities	<u>520,000</u>	<u>505,000</u>
	<u>628,538</u>	<u>858,670</u>
 Total current liabilities	<u>3,458,855</u>	<u>3,797,852</u>
<i>Non-current liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	12,556,587	13,215,889
Long-term debt payable from restricted assets, net of current maturities	<u>9,670,326</u>	<u>10,200,247</u>
 Total non-current liabilities	<u>22,226,913</u>	<u>23,416,136</u>
 Total liabilities	<u>25,685,768</u>	<u>27,213,988</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	<u>-</u>	<u>-</u>
 Total liabilities and deferred inflows of resources	<u>25,685,768</u>	<u>27,213,988</u>
<b>NET POSITION</b>		
Net investment in capital assets	68,398,861	66,646,054
Restricted for debt service	1,325,481	1,255,414
Unrestricted	<u>12,154,774</u>	<u>12,216,981</u>
Total net position	<u>81,879,116</u>	<u>80,118,449</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
	<u>\$ 107,564,884</u>	<u>\$ 107,332,437</u>

See accompanying notes to the financial statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<i>Operating revenues:</i>		
Service charges:		
Residential	\$ 5,137,981	\$ 4,719,175
Commercial and multi-family	4,879,366	4,728,600
Total service charges	<u>10,017,347</u>	<u>9,447,775</u>
Inspection fees	5,875	5,000
Late charges	56,053	51,486
Miscellaneous	242,123	341,056
	<u>10,321,398</u>	<u>9,845,317</u>
<i>Operating expenses:</i>		
Purchased water	1,192,189	1,188,489
Wastewater treatment	1,458,059	1,373,628
Operation expenses	800,775	799,540
General and administrative	2,425,985	2,285,995
Depreciation	2,706,630	2,563,565
	<u>8,583,638</u>	<u>8,211,217</u>
Operating income	<u>1,737,760</u>	<u>1,634,100</u>
<i>Non-operating revenues:</i>		
Investment income	15,994	18,443
Interest on assessments	19,076	25,323
Other interest	1,465	2,595
	<u>36,535</u>	<u>46,361</u>
<i>Non-operating expenses:</i>		
Interest expense	323,042	245,599
Bond issue costs	-	50,108
Amortization of debt discounts, (premiums), and refunding losses	(5,701)	(2,305)
Net loss on disposal of assets	549,183	1,373,041
	<u>866,524</u>	<u>1,666,443</u>
Income before capital contributions	907,771	14,018
Capital contributions	852,896	307,212
Change in net position	<u>1,760,667</u>	<u>321,230</u>
Net position, January 1, as previously reported	80,118,449	79,881,359
Restatement - change in accounting principle	-	(84,140)
Net position, January 1, as restated	<u>80,118,449</u>	<u>79,797,219</u>
Net position, December 31	<u>\$ 81,879,116</u>	<u>\$ 80,118,449</u>

**See accompanying notes to the financial statements.**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 10,399,846	\$ 9,715,346
Cash paid to vendors	(3,430,920)	(3,765,130)
Cash paid to and for employees and commissioners	(2,634,196)	(2,251,740)
Net cash provided by operating activities	4,334,730	3,698,476
<i>Cash flows from capital financing activities:</i>		
Capital contributions	627,672	239,862
Interest received on assessments and contract receivable	15,168	32,788
Collections on ULID assessments	27,689	47,362
Collections on contract receivable	-	32,232
Proceeds from sale of assets	17,213	-
Proceeds from issuance of debt	357,770	3,420,000
Principal paid on debt	(1,501,876)	(1,490,530)
Premium received on issuance of long-term debt, net of issue costs	-	84,006
Interest paid on long-term debt (net of amount capitalized)	(327,966)	(224,929)
Expenditures for plant in service and construction, and preliminary surveys and investigations	(6,371,097)	(6,084,919)
Net cash used in capital financing activities	(7,155,427)	(3,944,128)
<i>Cash flows from investing activities:</i>		
Proceeds from sale of investments	15,714,498	16,286,097
Purchase of investments	(12,786,878)	(15,972,734)
Collections on City of Everett contract	13,063	13,063
Interest received on investments and City of Everett contract (net of amount capitalized)	17,458	22,707
Net cash provided by investing activities	2,958,141	349,133
Net increase in cash	137,444	103,481
Cash at January 1	428,017	324,536
Cash at December 31	\$ 565,461	\$ 428,017
<i>Cash is composed of the following at December 31:</i>		
Cash - current assets	\$ 565,461	\$ 428,017
Cash - restricted current assets	-	-
	\$ 565,461	\$ 428,017

**See accompanying notes to the financial statements.**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF CASH FLOWS  
(CONTINUED)  
YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Operating income	\$ 1,737,760	\$ 1,634,100
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,706,630	2,563,565
(Increase) decrease in assets:		
Accounts receivable	69,657	(174,411)
Inventory	(10,685)	(121,726)
Prepaid expenses	(36,490)	28,296
Increase (decrease) in liabilities:		
Accounts payable and deposits	(114,068)	(279,832)
Accrued salaries and compensated absences	(18,074)	48,484
	\$ 4,334,730	\$ 3,698,476
 <i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Utility plant donations received	\$ 225,224	\$ 67,350
Utility plant assets transferred to the City of Everett and Alderwood Water and Wastewater District	\$ -	\$ 1,353,388

**See accompanying notes to the financial statements.**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**Description of business, nature of operations and reporting entity** - Mukilteo Water and Wastewater District, a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and wastewater systems within its boundaries which encompass an area in and around the city of Mukilteo, Washington. The District has no component units.

**Basis of accounting** - These financial statements are prepared utilizing the full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

**Change in accounting principle** - The District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 resulted in an \$84,140 reduction of net position as of January 1, 2012 as a result of recording as expenses in the proper period items previously recorded as unamortized bond issue costs. The 2012 financial statements have been restated to reclassify a deferred loss on refunding of debt as a deferred outflow of resources, expense bond issue costs incurred in 2012 in the amount of \$50,108 and reduce amortization expense in the amount of \$16,792.

**Investments** - Investments are stated at fair value and include investments in the State of Washington Treasurer's Investment Pool which are stated at share price which is equal to cost.

**Accounts receivable** - The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

**Inventory** - Inventory consists of materials and supplies available for future use and is stated at the lower of cost (average) or market.

**Capital assets** - Capital assets are stated at cost and include the capitalized portion of District employees' wages. For water and wastewater systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding \$5,000, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which generally are 5 to 100 years.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Interest capitalization** - Interest costs incurred for the construction of capital assets are subject to capitalization.

Total interest and amortization cost incurred for the years ended December 31, 2013 and 2012 was \$471,612 and \$471,161, respectively. Interest capitalized to Construction Work in Progress was \$152,513 and \$221,838, respectively, net of interest income of \$1,758 and \$6,029, respectively.

**Deferred outflows/inflows of resources** - Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has a deferred loss on refunding of debt resulting from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**Accrued compensated absences** - The District accrues accumulated unpaid vacation and sick leave amounts as earned. District employees accumulate vacation and sick hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement or death.

**Long-term debt** - Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

**Net position** - Net position is classified in the following three components: 1) Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted - This component of net position consists of assets and deferred outflows of resources restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources. 3) Unrestricted net position - This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**1. DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenues and expenses** - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing products and services in connection with the District's water and wastewater systems. Operating expenses include the costs associated with providing the District's products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as non-operating revenues and expenses.

**Capital contributions** - ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

**Use of estimates in financial statement preparation** - 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** – Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**2. DEPOSITS AND INVESTMENTS**

**Deposits** - The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**Investments** - As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments:

	Fair Value	
	2013	2012
State Treasurer's Investment Pool	<u>\$12,118,534</u>	<u>\$15,046,154</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**2. DEPOSITS AND INVESTMENTS** (continued)

**Credit risk** - As of December 31, 2013 and 2012, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

**Interest rate risk** - The Pool is a 2a-7-like pool. Consequently, the District's investments in the Pool are not subject to interest rate risk as the weighted average maturity of the Pool's portfolio will not exceed 90 days.

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

**3. RESTRICTED ASSETS**

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted assets are as follows:

	<u>Revenue and refunding bond funds</u>	<u>Revenue bond and DOE loan reserve funds</u>	<u>Construction funds</u>	<u>Total</u>
<i>2013:</i>				
<i>Current restricted assets:</i>				
Investments	\$263,981	\$735,233	\$ 13,108	\$1,012,322
Interest receivable	26,063			26,063
Assessments receivable – current	<u>39,563</u>			<u>39,563</u>
	<u>329,607</u>	<u>735,233</u>	<u>13,108</u>	<u>1,077,948</u>
 <i>Noncurrent restricted assets:</i>				
Assessments	<u>356,071</u>			<u>356,071</u>
	<u>\$685,678</u>	<u>\$735,233</u>	<u>\$ 13,108</u>	<u>\$1,434,019</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**3. RESTRICTED ASSETS (continued)**

	<u>Revenue and refunding bond funds</u>	<u>Revenue bond and DOE loan reserve funds</u>	<u>Construction funds</u>	<u>Total</u>
<i>2012:</i>				
<i>Current restricted     assets:</i>				
Investments	\$273,503	\$635,195	\$2,924,171	\$3,832,869
Interest receivable	22,154			22,154
Assessments receivable – current	<u>38,484</u>			<u>38,484</u>
	<u>334,141</u>	<u>635,195</u>	<u>2,924,171</u>	<u>3,893,507</u>
 <i>Noncurrent restricted     assets:</i>				
Assessments	<u>384,839</u>			<u>384,839</u>
	<u>\$718,980</u>	<u>\$635,195</u>	<u>\$2,924,171</u>	<u>\$4,278,346</u>

Terms of the revenue bond issues and the Washington State Department of Ecology loans require the District to establish and maintain debt service and reserve accounts. The debt service accounts are to accumulate funds for payment of principal and interest and the reserve accounts are to provide security for debt holders.

The required reserve at December 31, 2013 and 2012 was \$710,925 and \$553,031, respectively. The debt service and reserve accounts are fully funded.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**4. CAPITAL ASSETS**

Major classes of capital assets and capital asset activity was as follows:

	Balance, beginning of year	Additions	Disposals	Transfers	Balance, end of year
<b>2013:</b>					
Capital assets not being depreciated:					
Land and land rights and other	\$ 1,701,112	\$ 2,480		\$ 19,409	\$ 1,723,001
Construction in progress	<u>4,605,046</u>	<u>5,856,586</u>		<u>(9,500,490)</u>	<u>961,142</u>
	<u>6,306,158</u>	<u>5,859,066</u>		<u>(9,481,081)</u>	<u>2,684,143</u>
Capital assets being depreciated:					
Reservoirs	6,061,505		\$ (3,082)		6,058,423
Water system	27,247,432	494,034	(108,588)		27,632,878
Wastewater system	54,929,039	110,991	(126,931)	883,234	55,796,333
Treatment plant and capacity	21,144,486		(1,775,010)	8,224,285	27,593,761
Office building and improvements	5,368,011		(2,059)		5,365,952
Equipment and other	<u>3,298,083</u>	<u>98,930</u>	<u>(360,550)</u>	<u>373,562</u>	<u>3,410,025</u>
	<u>118,048,556</u>	<u>703,955</u>	<u>(2,376,220)</u>	<u>9,481,081</u>	<u>125,857,372</u>
Accumulated depreciation:					
Reservoirs	(1,106,959)	(61,760)	3,082		(1,165,637)
Water system	(6,357,464)	(420,680)	107,669		(6,670,475)
Wastewater system	(15,710,064)	(1,209,978)	77,311		(16,842,731)
Treatment plant and capacity	(8,893,432)	(614,806)	1,244,276		(8,263,962)
Office building and improvements	(1,409,673)	(145,568)	2,059		(1,553,182)
Equipment and other	<u>(2,003,560)</u>	<u>(253,838)</u>	<u>357,694</u>		<u>(1,899,704)</u>
	<u>(35,481,152)</u>	<u>(2,706,630)</u>	<u>1,792,091</u>		<u>(36,395,691)</u>
Net capital assets	<u>\$ 88,873,562</u>	<u>\$ 3,856,391</u>	<u>\$ (584,129)</u>	<u>\$ _____</u>	<u>\$92,145,824</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**4. CAPITAL ASSETS (continued)**

	Balance, beginning of year	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance, end of year
<b>2012:</b>					
Capital assets not being depreciated:					
Land and land rights and other	\$ 1,075,819			\$ 625,293	\$ 1,701,112
Construction in progress	<u>3,847,631</u>	<u>\$ 6,006,144</u>	<u>\$ (279,346)</u>	<u>(4,969,383)</u>	<u>4,605,046</u>
	<u>4,923,450</u>	<u>6,006,144</u>	<u>(279,346)</u>	<u>(4,344,090)</u>	<u>6,306,158</u>
Capital assets being depreciated:					
Reservoirs	6,061,505				6,061,505
Water system	24,651,680	101,182		2,494,570	27,247,432
Wastewater system	55,877,290	92,944	(1,123,984)	82,789	54,929,039
Treatment plant and capacity	19,998,435	78	(34,220)	1,180,193	21,144,486
Office building and improvements	5,111,823			256,188	5,368,011
Equipment and other	<u>3,005,325</u>	<u>6,560</u>	<u>(44,152)</u>	<u>330,350</u>	<u>3,298,083</u>
	<u>114,706,058</u>	<u>200,764</u>	<u>(1,202,356)</u>	<u>4,344,090</u>	<u>118,048,556</u>
Accumulated depreciation:					
Reservoirs	(1,045,174)	(61,785)			(1,106,959)
Water system	(6,012,923)	(344,541)			(6,357,464)
Wastewater system	(14,575,075)	(1,197,285)	62,296		(15,710,064)
Treatment plant and capacity	(8,319,128)	(583,817)	9,513		(8,893,432)
Office building and improvements	(1,271,516)	(138,157)			(1,409,673)
Equipment and other	<u>(1,802,433)</u>	<u>(237,980)</u>	<u>36,853</u>		<u>(2,003,560)</u>
	<u>(33,026,249)</u>	<u>(2,563,565)</u>	<u>108,662</u>		<u>(35,481,152)</u>
Net capital assets	<u>\$ 86,603,259</u>	<u>\$ 3,643,343</u>	<u>\$(1,373,040)</u>	<u>\$ _____</u>	<u>\$88,873,562</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS**

Long-term debt outstanding at December 31, payable from unrestricted assets, consisted of the following loans, secured by revenue of the system, issued for utility construction:

	<u>2013</u>	<u>2012</u>
Public Works Trust Fund Loans:		
\$811,640 loan: payable \$42,718 annually through the year 2018, plus interest at 1.0 annual percentage rate	\$ 213,589	\$ 256,307
\$7,000,000 loan: payable \$371,875 annually through the year 2026, plus interest at 0.5 annual percentage rate	4,834,375	5,206,250
\$1,000,000 loan: payable \$53,362 annually through the year 2027, plus interest at 0.5 annual percentage rate	747,076	800,439
\$1,000,000 loan: payable \$53,362 annually through the year 2027, plus interest at 0.5 annual percentage rate	747,076	800,439
\$6,739,575 loan: payable \$352,199 annually through the year 2028, plus interest at 0.5 annual percentage rate	5,282,980	5,635,178
\$1,950,000 authorized, \$170,067 drawn to December 31, 2013. Based on draws to December 31, 2013, payable \$8,951 annually through the year 2032, plus interest at 0.5 annual percentage rate	170,067	-
\$888,000 authorized, \$187,703 drawn to December 31, 2013. Based on draws to December 31, 2013, payable \$9,879 annually through the year 2032, plus interest at 0.5 annual percentage rate	187,703	-

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (continued)**

	<u>2013</u>	<u>2012</u>
Washington State Department of Ecology Loans:		
\$511,732 loan: payable \$19,760 semi-annually through December 2017, including interest at 1.5 annual percentage rate	152,876	189,688
\$1,145,247 loan: payable \$33,783 semi-annually through June 2028, including interest at 1.5 annual percentage rate	877,252	931,011
Drinking Water State Revolving Fund Loan:		
\$622,968 loan: payable \$32,788 annually through the year 2024, plus interest at 1.5 annual percentage rate	<u>360,665</u>	<u>393,453</u>
	13,573,659	14,212,765
Less current maturities	<u>(1,017,072)</u>	<u>(996,876)</u>
	<u>\$12,556,587</u>	<u>\$13,215,889</u>

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2013):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,017,072	\$ 82,382	\$ 1,099,454
2015	1,018,459	75,987	1,094,446
2016	1,019,866	69,412	1,089,278
2017	1,021,295	62,816	1,084,111
2018	983,078	56,347	1,039,425
2019-2023	4,715,193	195,105	4,910,298
2024-2028	3,723,376	57,823	3,781,199
2029-2032	<u>75,320</u>	<u>941</u>	<u>76,261</u>
	<u>\$13,573,659</u>	<u>\$600,813</u>	<u>\$14,174,472</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**5. LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (continued)**

Long-term debt, payable from unrestricted assets, activity was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<b>2013:</b>					
Public Works Trust Fund Loans:	\$ 256,307		\$ (42,718)	\$ 213,589	\$ 42,718
	5,206,250		(371,875)	4,834,375	371,875
	800,439		(53,363)	747,076	53,363
	800,439		(53,363)	747,076	53,363
	5,635,178		(352,198)	5,282,980	352,198
		\$170,067		170,067	8,951
		187,703		187,703	9,879
Washington State Department of Ecology Loans:	189,688		(36,812)	152,876	37,366
	931,011		(53,759)	877,252	54,571
Drinking Water State Revolving Fund Loan	<u>393,453</u>		<u>(32,788)</u>	<u>360,665</u>	<u>32,788</u>
	<u>\$14,212,765</u>	<u>\$357,770</u>	<u>\$(996,876)</u>	<u>\$13,573,659</u>	<u>\$1,017,072</u>
<b>2012:</b>					
Public Works Trust Fund Loans:	\$ 299,025		\$ (42,718)	\$ 256,307	\$ 42,718
	5,578,125		(371,875)	5,206,250	371,875
	853,801		(53,362)	800,439	53,363
	853,801		(53,362)	800,439	53,363
	5,987,377		(352,199)	5,635,178	352,198
Washington State Department of Ecology Loans:	225,954		(36,266)	189,688	36,812
	983,971		(52,960)	931,011	53,759
Drinking Water State Revolving Fund Loan	<u>426,241</u>		<u>(32,788)</u>	<u>393,453</u>	<u>32,788</u>
	<u>\$15,208,295</u>	<u>\$ -</u>	<u>\$(995,530)</u>	<u>\$14,212,765</u>	<u>\$996,876</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS**

Long-term debt service requirements to maturity, payable by the District from restricted assets, are as follows:

	2013	2012
Revenue bonds:		
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2028 with interest payable semi-annually of 3.5 to 4.5 annual percentage rates	\$ 6,965,000	\$ 7,325,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually of 0.85 to 4.0 annual percentage rate	<u>3,130,000</u>	<u>3,275,000</u>
	10,095,000	10,600,000
Less current maturities	(520,000)	(505,000)
Unamortized bond (discount) premium	<u>95,326</u>	<u>105,247</u>
	<u>\$ 9,670,326</u>	<u>\$10,200,247</u>

Long-term debt service requirements to maturity, payable by the District from restricted assets, are as follows:

	Principal	Interest	Total
2014	\$ 520,000	\$ 381,720	\$ 901,720
2015	530,000	367,362	897,362
2016	540,000	350,750	890,750
2017	550,000	333,875	883,875
2018	565,000	315,250	880,250
2019-2023	3,120,000	1,260,325	4,380,325
2024-2028	3,620,000	606,825	4,226,825
2029-2031	<u>650,000</u>	<u>52,600</u>	<u>702,600</u>
	<u>\$10,095,000</u>	<u>\$3,668,707</u>	<u>\$13,763,707</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**6. LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS** (continued)

Long-term debt, payable from restricted assets, activity was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<i>2013:</i>					
2008 Revenue Bonds	\$ 7,325,000		\$ (360,000)	\$ 6,965,000	\$375,000
2012 Revenue Bonds	<u>3,275,000</u>		<u>(145,000)</u>	<u>3,130,000</u>	<u>145,000</u>
	<u>\$10,600,000</u>	<u>\$ -</u>	<u>\$ (505,000)</u>	<u>\$10,095,000</u>	<u>\$520,000</u>
 <i>2012:</i>					
2008 Revenue Bonds	\$7,675,000		\$ (350,000)	\$ 7,325,000	\$360,000
2012 Revenue Bonds		<u>\$3,420,000</u>	<u>(145,000)</u>	<u>3,275,000</u>	<u>145,000</u>
	<u>\$7,675,000</u>	<u>\$3,420,000</u>	<u>\$ (495,000)</u>	<u>\$10,600,000</u>	<u>\$505,000</u>

**7. COMMITMENTS**

The District is obligated to the City of Everett to pay for a portion of certain city projects. As of December 31, 2013, the District's share is estimated to be as follows:

2014	\$ 714,000
2015	922,000
2016	810,000
2017	412,000
2018	80,000
2019-2023	<u>2,565,600</u>
	<u>\$5,503,600</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
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**8. PENSION PLAN**

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

*Plan description:*

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

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

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

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**8. PENSION PLAN** (continued)

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

PERS Plan 1 members are vested after the completion of five years of eligible service.

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

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

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

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

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

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

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
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**8. PENSION PLAN** (continued)

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

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

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

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

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

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

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

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)**

**8. PENSION PLAN** (continued)

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

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

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

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

PERS Plan 3 benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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

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

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

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**8. PENSION PLAN** (continued)

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and beneficiaries receiving benefits	82,242
Terminated plan members entitled to but not yet receiving benefits	30,515
Active plan members vested	106,317
Active plan members non-vested	<u>44,273</u>
	<u>263,347</u>

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

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

**Contributions** - The required contribution rates expressed as a percentage of covered payroll as of December 31, are as follows:

	2013			2012		
	PERS Plan 1	PERS Plan 2	PERS Plan 3	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%	9.21%	9.21%**	7.21%	7.21%	7.21%**
Employee	6.00%	4.92%	***	6.00%	4.64%	***

\* The employer rates include the employer administrative expense fee set at 0.18% and 0.16% as of December 31, 2013 and 2012, respectively.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.00% minimum to 15.00% maximum based on rate selected by the PERS 3 member.

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

	Required contributions		
	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$33,690	\$128,043	\$6,401
2012	\$9,573	\$103,070	\$-0-
2011	\$7,906	\$ 87,612	\$-0-

The required contributions for PERS Plan 1 in 2013 include \$26,676 of contributions made for excess compensation.

## 9. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are with Great West Life & Annuity Insurance Company, International City/County Managers Association Retirement Trust or the State of Washington Department of Retirement Systems deferred compensation program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to these plans in 2013 or 2012.

## 10. RISK MANAGEMENT

Mukilteo Water and Wastewater District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, and business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
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(CONTINUED)**

**10. RISK MANAGEMENT** (continued)

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

**11. MAJOR SUPPLIERS**

The District purchased approximately 33% and 56% of its water from the City of Everett (the City) during 2013 and 2012, respectively, and 67% and 44% of its water from Alderwood Water and Wastewater District during 2013 and 2012, respectively. The City also provided treatment for approximately 29% and 30% of the District's wastewater during 2013 and 2012, respectively.

**12. LEASES**

The District leases space for cell towers on certain reservoirs under noncancelable operating leases. Future rental income due to the District is as follows:

Year ending December 31:	
2014	\$ 78,194
2015	82,268
2016	86,381
2017	90,700
2018	95,235
Thereafter	<u>137,287</u>
	<u>\$570,065</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**13. ANNEXATION BY THE CITY OF EVERETT**

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for at least ten years. Although the City has not indicated it will exercise these rights, it is reasonably possible that future assumptions of assets will occur. As of December 31, 2013, no estimate can be made of any loss that will result from future assumptions or the year in which they may occur.

**14. LOSS ON DISPOSAL OF ASSETS IN 2012**

In 2012, the District transferred assets to the City of Mukilteo and Alderwood Water and Wastewater District (AWWD). The transfers to AWWD were a component of the water supply agreement between AWWD and the District. The transfers to the City were assets that the District constructed and used in operations but their overall usage and maintenance more closely aligned with the activities of the City.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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<b>Toll-free Citizen Hotline</b>	(866) 902-3900
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