



# Washington State Auditor's Office

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## Financial Statements Audit Report

# Mukilteo Water and Wastewater District

Snohomish County

For the period January 1, 2014 through December 31, 2015

Published October 17, 2016

Report No. 1017698





## Washington State Auditor's Office

October 17, 2016

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, 2014 through December 31, 2015**

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 27, 2016. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**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.

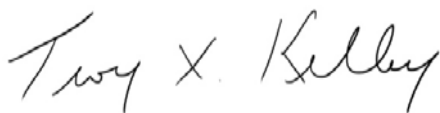
## COMPLIANCE AND OTHER MATTERS

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

September 27, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Mukilteo Water and Wastewater District Snohomish County January 1, 2014 through December 31, 2015**

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, 2015 and 2014, 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 controls 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 account 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, 2015 and 2014, 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 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

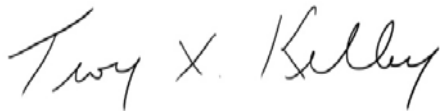
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 17 and pension plan information on pages 50 through 53 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 September 27, 2016 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 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* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 27, 2016

## **FINANCIAL SECTION**

**Mukilteo Water and Wastewater District  
Snohomish County  
January 1, 2014 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015 and 2014

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015 and 2014

Statement of Revenues, Expenses and Changes in Net Position – 2015 and 2014

Statement of Cash Flows – 2015 and 2014

Notes to the Financial Statements – 2015 and 2014

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2015

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2015

Schedule of Employer Contributions – PERS 1 – 2015

Schedule of Employer Contributions – PERS 2/3 – 2015

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

**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, 2015 and 2014 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, 2015 AND 2014**

**CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital assets	\$ 91,821,519	\$ 92,136,279	\$ 92,145,824
Other assets	<u>19,866,131</u>	<u>17,651,187</u>	<u>15,402,038</u>
Total assets	<u>\$ 111,687,650</u>	<u>\$ 109,787,466</u>	<u>\$ 107,547,862</u>
 Deferred outflows of resources	 <u>\$ 716,691</u>	 <u>\$ 179,485</u>	 <u>\$ 17,022</u>
 Long-term liabilities	 \$ 21,974,348	 \$ 22,428,152	 \$ 22,345,167
Other liabilities	<u>3,577,441</u>	<u>3,560,563</u>	<u>3,340,601</u>
Total liabilities	<u>\$ 25,551,789</u>	<u>\$ 25,988,715</u>	<u>\$ 25,685,768</u>
 Deferred inflows of resources	 <u>\$ 231,022</u>	 <u>\$ 517,774</u>	 <u>\$ -</u>
 Net investment in capital assets	 \$ 70,265,658	 \$ 69,428,855	 \$ 68,398,861
Restricted amounts	1,456,216	1,383,755	1,325,481
Unrestricted amounts	<u>14,899,656</u>	<u>12,647,852</u>	<u>12,154,774</u>
Total net position	<u>\$ 86,621,530</u>	<u>\$ 83,460,462</u>	<u>\$ 81,879,116</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Wastewater service revenue	\$ 7,157,458	\$ 6,909,705	\$ 6,556,929
Water service revenue	3,844,695	3,583,049	3,460,418
Other wastewater operating revenues	148,798	126,829	91,708
Other water operating revenues	<u>297,754</u>	<u>280,336</u>	<u>212,343</u>
Total operating revenues	<u>11,448,705</u>	<u>10,899,919</u>	<u>10,321,398</u>
Wastewater operating expenses	2,017,564	1,913,996	2,010,816
Water operating expenses	1,596,210	1,456,462	1,440,207
General and administrative expenses, wastewater	1,190,439	1,135,801	1,507,819
General and administrative expenses, water	1,088,516	1,065,260	918,166
Depreciation, wastewater	2,408,770	2,406,133	2,030,742
Depreciation, water	<u>690,793</u>	<u>687,719</u>	<u>675,888</u>
Total operating expenses	<u>8,992,292</u>	<u>8,665,371</u>	<u>8,583,638</u>
Operating income	2,456,413	2,234,548	1,737,760
Non-operating revenue:			
Interest	41,954	35,743	36,535
Net gain on disposal of assets	-	10,470	-
Non-operating expenses:			
Interest and amortization	(382,114)	(424,167)	(317,341)
Net loss on disposal of assets	(86,641)	-	(549,183)
Bond issue costs	<u>(78,293)</u>	<u>-</u>	<u>-</u>
Income before capital contributions	1,951,319	1,856,594	907,771
Capital contributions	<u>1,209,749</u>	<u>1,311,333</u>	<u>852,896</u>
Increase in net position	<u>\$ 3,161,068</u>	<u>\$ 3,167,927</u>	<u>\$ 1,760,667</u>
Net position, January 1, as previously reported	83,460,462	81,879,116	80,118,449
Restatement - change in accounting principle	<u>-</u>	<u>(1,586,581)</u>	<u>-</u>
Net position, January 1, as restated	<u>83,460,462</u>	<u>80,292,535</u>	<u>80,118,449</u>
Net position, December 31	<u>\$ 86,621,530</u>	<u>\$ 83,460,462</u>	<u>\$ 81,879,116</u>

Note: Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* were implemented effective January 1, 2014. Information was not available to restate the 2013 condensed financial statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

**FINANCIAL POSITION**

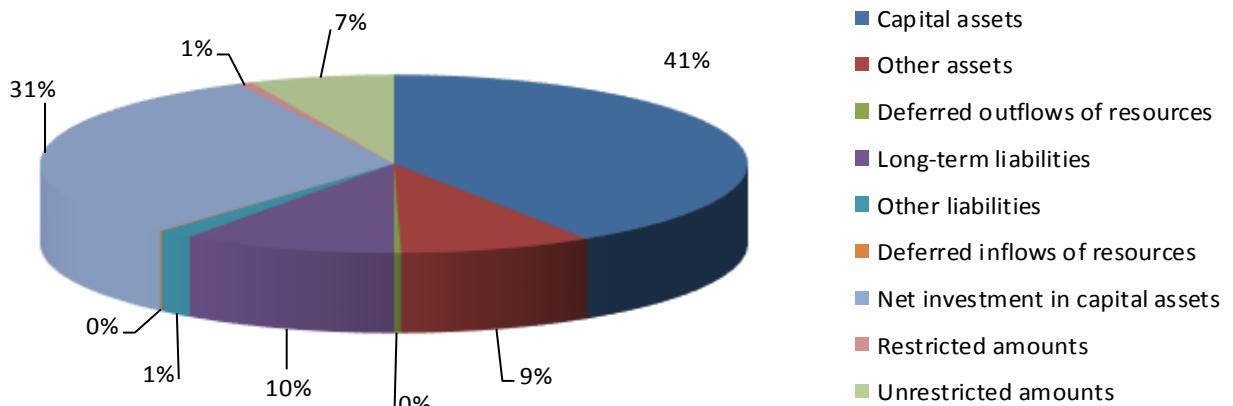
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets decreased in 2015 and 2014 due to depreciation in excess of construction activity, donated systems and asset purchases.

The District is located in Snohomish County, Washington.

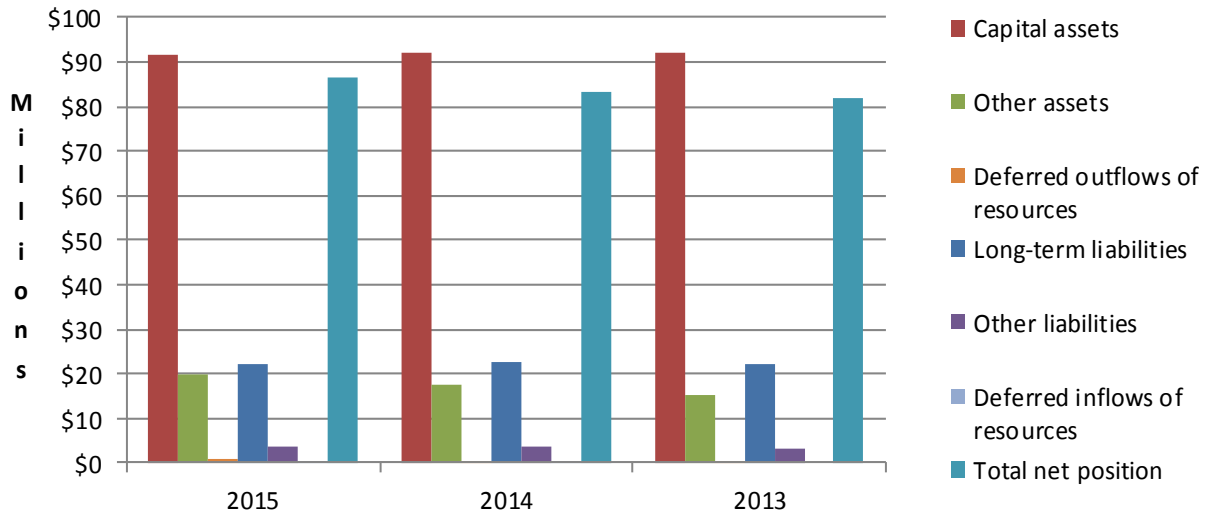
The following charts indicate the components of financial position:

**2015 STATEMENT OF NET POSITION**



**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

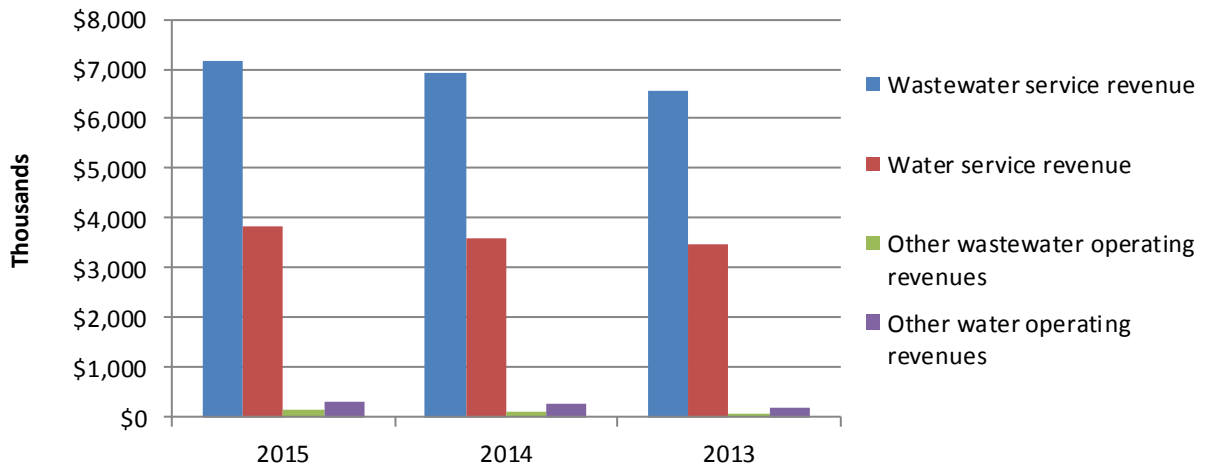
## COMPARATIVE STATEMENT OF NET POSITION



## 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:

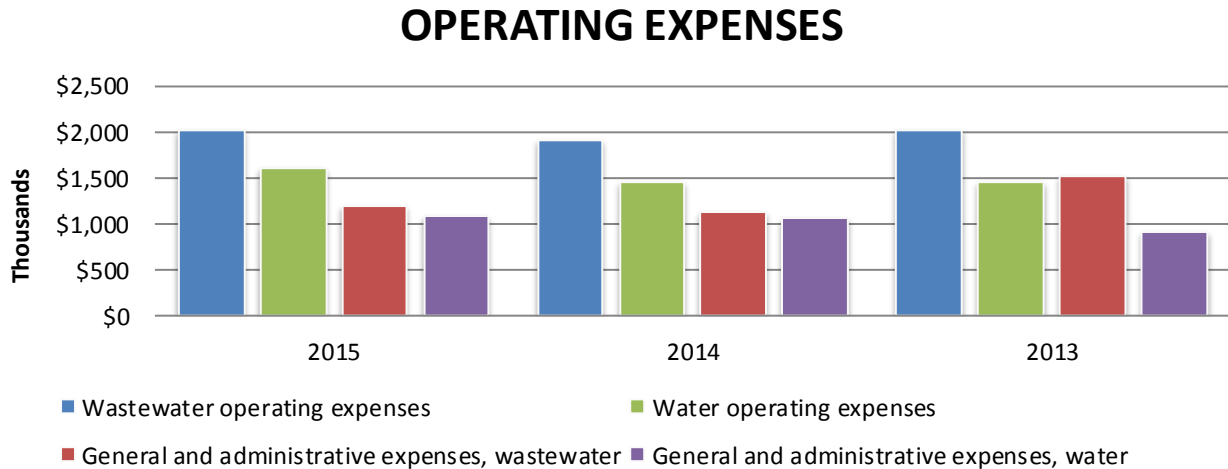
## OPERATING REVENUES



The increase in water and wastewater revenues in 2015 and 2014 were primarily due to rate increases.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

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

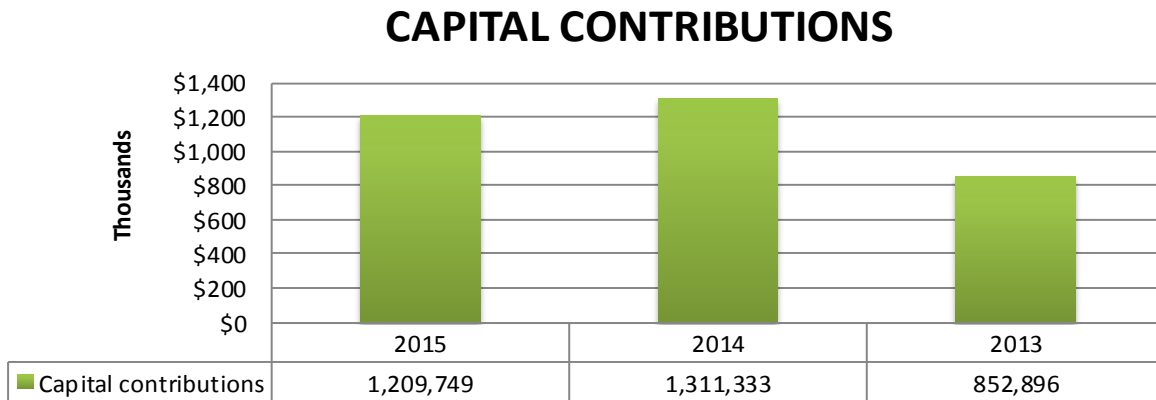


Expenses increased in 2015 primarily due to an increase in consumption as a result of the hot and dry weather conditions in the summer and increases in personnel costs. Expenses increased in 2014 primarily due to an increase in depreciation. The increase in depreciation was caused by significant assets being placed in service in late 2013. The increase was partially offset by a decrease in water cost as a result of the District being able to purchase more of its water at a lower rate.

The District operated at a profit in 2015, 2014 and 2013. 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:



**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

**CAPITAL CONTRIBUTIONS** (continued)

The contributions are indicative of the growth of the District and include donated systems totaling \$648,197, \$654,609 and \$225,224 for the years ended December 31, 2015, 2014 and 2013, respectively. Capital contributions were stable in 2015 and increased in 2014 due to the improving economy.

**CAPITAL ASSETS AND LONG-TERM DEBT**

Capital assets decreased in 2015 and 2014 due to depreciation in excess of construction activity, donated systems and asset purchases. Significant capital asset additions included the following:

<b>2015</b>		<b>2014</b>	
CIP Expansion – City of		CIP Expansion – City of	
Everett	\$ 557,289	Everett	\$ 411,552
3rd St. Sewer Main Replacement	239,937	WWTF Road Improvements	555,572
Water System Improvements -		WWTF Road & Facility Paving	399,720
3rd St. Main	238,993	Water System Improvements -	
Webster St. Water Main & PRV	199,810	48th Place Main	180,096
Reservoir 5 Interior Recoating	129,321	TV Van	170,500
Reservoir 1 Interior Piping and		Donated Systems	654,609
Exterior Painting	77,005		
Water System Improvements -			
5th St. Main	72,085		
Holly Drive Lift Station Upgrade	67,262		
Lift Station 10 Force Main	65,758		
Donated Systems	648,197		

The decrease in long-term debt in 2015 and 2014 was due to principal payments made by the District in excess of new borrowings. Overall long-term liabilities increased in 2014 as a result of recording the net pension liability effective January 1, 2014. See the following additional comments section.

See notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term debt.

On May 21, 2015 the District issued \$4,885,000 of Water and Wastewater Revenue Refunding Bonds to advance refund \$4,870,000 of outstanding 2008 bonds. See note 8 in the financial statements for more details.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015 AND 2014**

**CAPITAL ASSETS AND LONG-TERM DEBT** (continued)

As of December 31, 2015, the District has \$13,308,437 of cash and investments set aside in construction, capital improvement and capital replacement accounts of which \$533,891 is committed under existing contracts.

The District is committed to pay a portion of certain City of Everett projects. See note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

**ADDITIONAL COMMENTS**

Effective January 1, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Implementation of these standards required the District to recognize significant deferred outflows and inflows related to pensions, the related net pension liability and a decrease in 2014 beginning net position in the amount of \$1,586,581. See note 1 in the financial statements for more details.

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 16 in the financial statements for more details.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>	<b>2015</b>	<b>Restated 2014</b>
<i>Current assets:</i>		
Unrestricted:		
Cash	\$ 221,286	\$ 367,661
Investments	15,704,613	13,354,316
Accounts receivable	1,871,842	1,855,909
Contract receivable, current portion	13,348	13,062
Inventory	320,039	374,677
Prepaid expenses	138,054	136,745
	<u>18,269,182</u>	<u>16,102,370</u>
Restricted:		
Cash	9,353	-
Investments	1,203,921	1,113,674
Interest receivable	15,261	17,169
Assessments receivable - current portion	38,306	38,306
	<u>1,266,841</u>	<u>1,169,149</u>
Total current assets	<u>19,536,023</u>	<u>17,271,519</u>
<i>Non-current assets:</i>		
Unrestricted:		
Contract receivable, less current portion	<u>61,967</u>	<u>73,221</u>
Restricted:		
Assessments receivable, less current portion	<u>268,141</u>	<u>306,447</u>
Capital assets not being depreciated:		
Land, land rights and other	1,723,001	1,723,001
Construction in progress	1,661,918	858,136
Capital assets being depreciated:		
Plant in service	130,555,658	128,956,408
Less accumulated depreciation	<u>(42,119,058)</u>	<u>(39,401,266)</u>
Net capital assets	<u>91,821,519</u>	<u>92,136,279</u>
Total non-current assets	<u>92,151,627</u>	<u>92,515,947</u>
Total assets	<u>111,687,650</u>	<u>109,787,466</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding of debt	492,553	13,364
Deferred outflows related to pensions	<u>224,138</u>	<u>166,121</u>
Total deferred outflows of resources	<u>716,691</u>	<u>179,485</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 112,404,341</u></u>	<u><u>\$ 109,966,951</u></u>

**See accompanying notes to the financial statements**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

<b>LIABILITIES</b>	<b>2015</b>	<b>Restated 2014</b>
<i>Current liabilities:</i>		
Payable from unrestricted assets:		
Accounts payable	\$ 1,404,566	\$ 1,496,686
Accrued salaries and benefits	48,041	44,955
Compensated absences	235,000	170,000
Customer deposits	91,249	91,250
Deposits for construction	63,757	57,519
Retainage payable	7,356	-
Accrued interest	30,001	31,889
Long-term debt - current maturities	1,068,705	1,046,423
	<u>2,948,675</u>	<u>2,938,722</u>
 Payable from restricted assets:		
Accrued interest	78,766	91,841
Long-term debt - current maturities	550,000	530,000
	<u>628,766</u>	<u>621,841</u>
 Total current liabilities	<u>3,577,441</u>	<u>3,560,563</u>
<i>Non-current liabilities:</i>		
Long-term debt payable from unrestricted assets, net of current maturities	11,299,672	12,013,522
Long-term debt payable from restricted assets, net of current maturities	9,130,037	9,130,843
Compensated absences	60,855	95,174
Net pension liability	1,483,784	1,188,613
	<u>21,974,348</u>	<u>22,428,152</u>
 Total non-current liabilities	<u>21,974,348</u>	<u>22,428,152</u>
 Total liabilities	<u>25,551,789</u>	<u>25,988,715</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions	231,022	517,774
	<u>231,022</u>	<u>517,774</u>
 Total liabilities and deferred inflows of resources	<u>25,782,811</u>	<u>26,506,489</u>
 <b>NET POSITION</b>		
Net investment in capital assets	70,265,658	69,428,855
Restricted for debt service	1,456,216	1,383,755
Unrestricted	14,899,656	12,647,852
Total net position	<u>86,621,530</u>	<u>83,460,462</u>
 <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 112,404,341</u>	<u>\$ 109,966,951</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, 2015 AND 2014**

	<u>2015</u>	<u>Restated 2014</u>
<i>Operating revenues:</i>		
Service charges:		
Residential	\$ 5,656,300	\$ 5,370,495
Commercial and multi-family	5,345,853	5,122,259
Total service charges	<u>11,002,153</u>	<u>10,492,754</u>
Inspection fees	2,500	7,250
Late charges	86,176	81,580
Miscellaneous	<u>357,876</u>	<u>318,335</u>
	<u>11,448,705</u>	<u>10,899,919</u>
<i>Operating expenses:</i>		
Purchased water	1,250,758	1,121,250
Wastewater treatment	1,564,958	1,505,727
Operation expenses	798,058	743,481
General and administrative	2,278,955	2,201,061
Depreciation	<u>3,099,563</u>	<u>3,093,852</u>
	<u>8,992,292</u>	<u>8,665,371</u>
 Operating income	 <u>2,456,413</u>	 <u>2,234,548</u>
<i>Non-operating revenues:</i>		
Investment income	24,323	12,604
Interest on assessments	16,485	20,646
Other interest	1,146	2,493
Net gain on disposal of assets	-	10,470
	<u>41,954</u>	<u>46,213</u>
<i>Non-operating expenses:</i>		
Interest expense	394,957	429,993
Amortization of debt discounts, (premiums), and refunding losses	(12,843)	(5,826)
Net loss on disposal of assets	86,641	-
Bond issue costs	<u>78,293</u>	<u>-</u>
	<u>547,048</u>	<u>424,167</u>
 Income before capital contributions	 1,951,319	 1,856,594
Capital contributions	<u>1,209,749</u>	<u>1,311,333</u>
Change in net position	<u>3,161,068</u>	<u>3,167,927</u>
 Net position, January 1	 83,460,462	 81,879,116
Restatement - change in accounting principle	-	(1,586,581)
Net position, January 1, as restated	<u>83,460,462</u>	<u>80,292,535</u>
 Net position, December 31	 <u>\$ 86,621,530</u>	 <u>\$ 83,460,462</u>

**See accompanying notes to the financial statements**

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>Restated 2014</b>
<i>Cash flows from operating activities:</i>		
Cash received from customers	\$ 11,439,009	\$ 10,877,950
Cash paid to vendors	(3,417,909)	(3,166,860)
Cash paid to and for employees and commissioners	(2,470,469)	(2,455,157)
Net cash provided by operating activities	<u>5,550,631</u>	<u>5,255,933</u>
<i>Cash flows from capital financing activities:</i>		
Capital contributions	561,552	656,724
Interest received on assessments and contract receivable	18,393	29,540
Collections on ULID assessments	38,306	50,881
Proceeds from sale of assets	13,242	10,767
Proceeds from issuance of debt	5,260,728	503,358
Payment to escrow account to refund bonds, net of amount representing interest	(5,378,133)	-
Principal paid on debt	(1,632,297)	(1,537,071)
Premium received on issuance of long-term debt	610,982	-
Bond issue costs paid	(78,293)	-
Interest paid on long-term debt (net of amount capitalized)	(409,920)	(435,130)
Expenditures for plant in service and construction, and preliminary surveys and investigations	(2,290,200)	(2,410,318)
Net cash used in capital financing activities	<u>(3,285,640)</u>	<u>(3,131,249)</u>
<i>Cash flows from investing activities:</i>		
Proceeds from sale of investments	12,505,503	10,355,266
Purchase of investments	(14,946,047)	(12,704,722)
Collections on City of Everett contract	13,062	13,063
Interest received on investments and City of Everett contract	25,469	13,909
Net cash used in investing activities	<u>(2,402,013)</u>	<u>(2,322,484)</u>
Net increase (decrease) in cash	(137,022)	(197,800)
Cash at January 1	367,661	565,461
Cash at December 31	<u>\$ 230,639</u>	<u>\$ 367,661</u>
Cash is composed of the following at December 31:		
Cash - current assets	\$ 221,286	\$ 367,661
Cash - restricted current assets	9,353	-
	<u>\$ 230,639</u>	<u>\$ 367,661</u>

**See accompanying notes to the financial statements**

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**(CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>Restated 2014</u>
<i>Reconciliation of operating income to net cash provided by operating activities:</i>		
Operating income	\$ 2,456,413	\$ 2,234,548
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,099,563	3,093,852
Interest income	-	1,188
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(15,933)	(62,658)
Inventory	54,638	(108,604)
Prepaid expenses	(1,309)	931
Deferred outflows related to pensions	(58,017)	(77,971)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and deposits	(26,910)	168,603
Accrued salaries and compensated absences	33,767	(25,612)
Net pension liability	295,171	(486,118)
Deferred inflows related to pensions	<u>(286,752)</u>	<u>517,774</u>
Net cash provided by operating activities	<u>\$ 5,550,631</u>	<u>\$ 5,255,933</u>
<i>Supplemental schedule of significant non-cash financing and investing activities:</i>		
Utility plant donations received	\$ 648,197	\$ 654,609

**See accompanying notes to the financial statements**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**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 is governed by an elected three member board and 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 (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements establish accounting and financial reporting standards that require recognition of the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and adjust pension expense, which was previously recorded based on contributions due to the related plans.

The cumulative impact of implementation of GASB 68 and 71 resulted in an \$1,586,581 reduction of net position as of January 1, 2014 as a result of recognizing the beginning net pension liability of \$1,674,731 and beginning deferred outflows of resources related to pensions of \$88,150 for contributions to the plan made between June 30, 2013 (the measurement date) and December 31, 2013. It was not practicable to determine any other deferred outflows or deferred inflows of resources as of January 1, 2014 as the information was not available and, accordingly, no amounts for these items were recorded.

The 2014 financial statements have been restated to recognize the net pension liability in the amount of \$1,188,613, deferred outflows related to pensions in the amount of \$166,121, deferred inflows of resources related to pensions in the amount of \$517,774 and increase (decrease) previously recorded pension expense in the amount of \$(46,315).

**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.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

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

**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. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated useful lives</u>
Reservoirs	15 - 100 years
Water system	5 - 100 years
Wastewater system	10 - 75 years
Treatment plant and capacity	10 - 100 years
Office building and improvement	5 - 40 years
Equipment and other	3 - 25 years

**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, 2015 and 2014 was \$412,761 and \$453,139, respectively. Interest capitalized to Construction Work in Progress was \$30,647 and \$28,972, respectively.

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

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

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

**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. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results 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. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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. Deferred inflows of resources consist of the District's proportionate share of deferred outflows related to pension plans. The deferred inflows related to pensions are amortized over a closed five-year period.

**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 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, 2015 AND 2014  
(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.

**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:

	<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>
State Treasurer's Investment Pool	<u>\$16,908,534</u>	<u>\$14,467,990</u>

**Credit risk** - As of December 31, 2015 and 2014, 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 60 days. As of December 31, 2015, 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. In March 2016, the District implemented an investment policy limiting its exposure to rising interest rates: securities purchased must have a final maturity of no longer than five years from the date of purchase and the weighted average maturity of the District's portfolio must not exceed two years.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**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:

	Revenue and refunding bond funds	Revenue bond and DOE loan reserve funds	Total
<i>2015:</i>			
<i>Current restricted assets:</i>			
Cash	\$ 9,353		\$ 9,353
Investments	336,771	\$867,150	1,203,921
Interest receivable	15,261		15,261
Assessments			
receivable – current	<u>38,306</u>		<u>38,306</u>
	399,691	<u>867,150</u>	1,266,841
<i>Noncurrent restricted assets:</i>			
Assessments	<u>268,141</u>		<u>268,141</u>
	<u>\$667,832</u>	<u>\$867,150</u>	<u>\$1,534,982</u>
<i>2014:</i>			
<i>Current restricted assets:</i>			
Investments	\$291,896	\$821,778	\$1,113,674
Interest receivable	17,169		17,169
Assessments			
receivable – current	<u>38,306</u>		<u>38,306</u>
	347,371	<u>821,778</u>	1,169,149
<i>Noncurrent restricted assets:</i>			
Assessments	<u>306,447</u>		<u>306,447</u>
	<u>\$653,818</u>	<u>\$821,778</u>	<u>\$1,475,596</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, 2015 and 2014 was \$850,943 and \$780,934, respectively. The debt service and reserve accounts are fully funded.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**4. CAPITAL ASSETS**

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

	Balance, Beginning of year	Increases	Decreases	Balance, end of year
<i>2015:</i>				
Capital assets not being depreciated:				
Land, land rights and other	\$ 1,723,001			\$ 1,723,001
Construction in progress	<u>858,136</u>	<u>\$ 1,830,035</u>	<u>\$ (1,026,253)</u>	<u>1,661,918</u>
	<u>2,581,137</u>	<u>1,830,035</u>	<u>(1,026,253)</u>	<u>3,384,919</u>
Capital assets being depreciated:				
Reservoirs	6,058,423	77,005		6,135,428
Water system	28,860,150	1,246,607	(210,939)	29,895,818
Wastewater system	55,826,354	467,421	(14,629)	56,279,146
Treatment plant and capacity	29,183,210	86,107	(6,157)	29,263,160
Office building and improvement	5,365,353			5,365,353
Equipment and other	<u>3,662,918</u>	<u>205,857</u>	<u>(252,022)</u>	<u>3,616,753</u>
	<u>128,956,408</u>	<u>2,082,997</u>	<u>(483,747)</u>	<u>130,555,658</u>
Accumulated depreciation:				
Reservoirs	(1,227,393)	(66,694)		(1,294,087)
Water system	(7,108,180)	(457,437)	114,496	(7,451,121)
Wastewater system	(18,074,363)	(1,243,953)	14,629	(19,303,687)
Treatment plant and capacity	(9,204,805)	(955,841)	6,157	(10,154,489)
Office building and improvement	(1,697,894)	(144,968)		(1,842,862)
Equipment and other	<u>(2,088,631)</u>	<u>(230,670)</u>	<u>246,489</u>	<u>(2,072,812)</u>
	<u>(39,401,266)</u>	<u>(3,099,563)</u>	<u>381,771</u>	<u>(42,119,058)</u>
Net capital assets	<u>\$ 92,136,279</u>	<u>\$ 813,469</u>	<u>\$ (1,128,229)</u>	<u>\$ 91,821,519</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**4. CAPITAL ASSETS (continued)**

	Balance, Beginning of year	Increases	Decreases	Balance, end of year
<i>2014:</i>				
Capital assets not being depreciated:				
Land, land rights and other	\$ 1,723,001			\$ 1,723,001
Construction in progress	961,142	\$ 1,722,263	\$ (1,825,269)	858,136
	<u>2,684,143</u>	<u>1,722,263</u>	<u>(1,825,269)</u>	<u>2,581,137</u>
Capital assets being depreciated:				
Reservoirs	6,058,423			6,058,423
Water system	27,632,878	1,227,272		28,860,150
Wastewater system	55,796,333	36,402	(6,381)	55,826,354
Treatment plant and capacity	27,593,761	1,594,116	(4,667)	29,183,210
Office building and improvement	5,365,952		(599)	5,365,353
Equipment and other	3,410,025	329,820	(76,927)	3,662,918
	<u>125,857,372</u>	<u>3,187,610</u>	<u>(88,574)</u>	<u>128,956,408</u>
Accumulated depreciation:				
Reservoirs	(1,165,637)	(61,756)		(1,227,393)
Water system	(6,670,475)	(437,705)		(7,108,180)
Wastewater system	(16,842,731)	(1,238,013)	6,381	(18,074,363)
Treatment plant and capacity	(8,263,962)	(945,510)	4,667	(9,204,805)
Office building and improvement	(1,553,182)	(145,311)	599	(1,697,894)
Equipment and other	(1,899,704)	(265,557)	76,630	(2,088,631)
	<u>(36,395,691)</u>	<u>(3,093,852)</u>	<u>88,277</u>	<u>(39,401,266)</u>
Net capital assets	<u>\$ 92,145,824</u>	<u>\$ 1,816,021</u>	<u>\$ (1,825,566)</u>	<u>\$ 92,136,279</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(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>2015</u>	<u>2014</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	\$ 128,154	\$ 170,871
\$7,000,000 loan: payable \$371,875 annually through the year 2026, plus interest at 0.5 annual percentage rate	4,090,625	4,462,500
\$1,000,000 loan: payable \$53,363 annually through the year 2027, plus interest at 0.5 annual percentage rate	640,351	693,713
\$1,000,000 loan: payable \$53,363 annually through the year 2027, plus interest at 0.5 annual percentage rate	640,351	693,713
\$6,739,575 loan: payable \$352,199 annually through the year 2028, plus interest at 0.5 annual percentage rate	4,578,582	4,930,781
\$1,950,000 authorized, \$545,795 drawn to December 31, 2015. Based on draws to December 31, 2015, payable \$29,825 annually through the year 2032, plus interest at 0.5 annual percentage rate	507,019	161,116
\$888,000 authorized, \$691,061 drawn to December 31, 2015. Based on draws to December 31, 2015, payable \$37,843 annually through the year 2032, plus interest at 0.25 annual percentage rate	643,338	681,182

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

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

	<u>2015</u>	<u>2014</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	77,580	115,509
\$1,145,247 loan: payable \$33,783 semi-annually through June 2028, including interest at 1.5 annual percentage rate	767,287	822,682
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>295,090</u>	<u>327,878</u>
	12,368,377	13,059,945
Less current maturities	<u>(1,068,705)</u>	<u>(1,046,423)</u>
	<u><u>\$11,299,672</u></u>	<u><u>\$12,013,522</u></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, 2015):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,068,705	\$ 71,955	\$ 1,140,660
2017	1,070,133	65,210	1,135,343
2018	1,031,916	58,591	1,090,507
2019	990,073	52,399	1,042,472
2020	990,961	46,621	1,037,582
2021-2025	4,935,822	145,959	5,081,781
2026-2030	2,145,431	23,866	2,169,297
2031-2032	<u>135,336</u>	<u>731</u>	<u>136,067</u>
	<u><u>\$12,368,377</u></u>	<u><u>\$465,332</u></u>	<u><u>\$12,833,709</u></u>

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(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:

	<u>2015</u>	<u>2014</u>
Revenue bonds:		
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2023 with interest payable semi-annually of 3.75 to 4.3 annual percentage rate	\$ 1,335,000	\$ 6,590,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually of 1.5 to 4.0 annual percentage rate	2,840,000	2,985,000
\$4,885,000 issued May 21, 2015 for refunding, due serially through the year 2028 with interest payable semi-annually of 2.0 to 4.0 annual percentage rate	<u>4,850,000</u>	<u>-</u>
	9,025,000	9,575,000
Less current maturities	(550,000)	(530,000)
Unamortized bond (discount) premium	<u>655,037</u>	<u>85,843</u>
	<u><u>\$ 9,130,037</u></u>	<u><u>\$ 9,130,843</u></u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 550,000	\$ 315,063	\$ 865,063
2017	560,000	297,988	857,988
2018	580,000	279,163	859,163
2019	600,000	259,263	859,263
2020	610,000	246,663	856,663
2021-2025	3,265,000	929,400	4,194,400
2026-2030	2,635,000	298,750	2,933,750
2031	<u>225,000</u>	<u>9,000</u>	<u>234,000</u>
	<u><u>\$9,025,000</u></u>	<u><u>\$2,635,290</u></u>	<u><u>\$11,660,290</u></u>

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**7. CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities was as follows:

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<i>2015:</i>					
<i>Long-term debt payable from unrestricted assets:</i>					
Public Works Trust Fund Loans:					
	\$ 170,871		\$ (42,717)	\$ 128,154	\$ 42,717
	4,462,500		(371,875)	4,090,625	371,875
	693,713		(53,362)	640,351	53,363
	693,713		(53,362)	640,351	53,363
	4,930,781		(352,199)	4,578,582	352,199
	161,116	\$ 375,728	(29,825)	507,019	29,825
	681,182		(37,844)	643,338	37,843
Washington State Department of Ecology Loans:					
	115,509		(37,929)	77,580	38,500
	822,682		(55,395)	767,287	56,232
Drinking Water State Revolving Fund Loan	<u>327,878</u>		<u>(32,788)</u>	<u>295,090</u>	<u>32,788</u>
	<u>\$13,059,945</u>	<u>\$ 375,728</u>	<u>\$(1,067,296)</u>	<u>\$12,368,377</u>	<u>\$1,068,705</u>
<i>Long-term debt payable from restricted assets:</i>					
2008 Revenue Bonds	\$ 6,590,000		\$(5,255,000)	\$ 1,335,000	\$ 390,000
2012 Revenue Bonds	2,985,000		(145,000)	2,840,000	150,000
2015 Revenue Bonds	<u>-</u>	<u>\$4,885,000</u>	<u>(35,000)</u>	<u>4,850,000</u>	<u>10,000</u>
	<u>\$ 9,575,000</u>	<u>\$4,885,000</u>	<u>\$(5,435,000)</u>	<u>\$ 9,025,000</u>	<u>\$ 550,000</u>
Compensated absences	<u>\$ 265,174</u>	<u>\$ 265,956</u>	<u>\$(235,275)</u>	<u>\$ 295,855</u>	<u>\$ 235,000</u>
Net pension liability	<u>\$ 1,188,613</u>	<u>\$ 451,135</u>	<u>\$(155,964)</u>	<u>\$ 1,483,784</u>	

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**7. CHANGES IN LONG-TERM LIABILITIES (continued)**

	Balance, beginning of year	Additions	Reductions	Balance, end of year	Amounts due within one year
<i>2014:</i>					
<i>Long-term debt payable from unrestricted assets:</i>					
Public Works Trust					
Fund Loans:					
	\$ 213,589		\$ (42,718)	\$ 170,871	\$ 42,718
	4,834,375		(371,875)	4,462,500	371,875
	747,076		(53,363)	693,713	53,363
	747,076		(53,363)	693,713	53,363
	5,282,980		(352,199)	4,930,781	352,199
	170,067		(8,951)	161,116	8,951
	187,703	\$503,358	(9,879)	681,182	37,843
Washington State Department of Ecology Loans:					
	152,876		(37,367)	115,509	37,928
	877,252		(54,570)	822,682	55,395
Drinking Water State Revolving Fund Loan	<u>360,665</u>	<u>          </u>	<u>(32,787)</u>	<u>327,878</u>	<u>32,788</u>
	<u>\$13,573,659</u>	<u>\$503,358</u>	<u>\$(1,017,072)</u>	<u>\$13,059,945</u>	<u>\$1,046,423</u>
<i>Long-term debt payable from restricted assets:</i>					
2008 Revenue Bonds	\$ 6,965,000	\$ -	\$ (375,000)	\$ 6,590,000	\$ 385,000
2012 Revenue Bonds	<u>3,130,000</u>	<u>          </u>	<u>(145,000)</u>	<u>2,985,000</u>	<u>145,000</u>
	<u>\$10,095,000</u>	<u>\$ -</u>	<u>\$ (520,000)</u>	<u>\$ 9,575,000</u>	<u>\$ 530,000</u>
Compensated absences	<u>\$ 288,254</u>	<u>\$146,790</u>	<u>\$ (169,870)</u>	<u>\$ 265,174</u>	<u>\$ 170,000</u>
Net pension liability	<u>\$ 1,674,731</u>	<u>\$ -</u>	<u>\$ (486,118)</u>	<u>\$ 1,188,613</u>	

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**8. REFUNDED BONDS**

On May 21, 2015, the District issued \$4,885,000 of Water and Wastewater Revenue Refunding Bonds with interest rates of 2.00% to 4.00% to advance refund \$4,870,000 of outstanding 2008 bonds with interest rates of 4.00% to 4.50%. The net proceeds of refunding bonds totaling \$5,416,375 including \$38,242 representing accrued interest to the refunding date, were used to purchase U.S. Government securities and provide the beginning escrow cash balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds outstanding in this fund at December 31, 2015 is \$4,870,000.

Although the advance refunding resulted in an accounting loss of \$527,681 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by \$311,428 through October 1, 2028 and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$271,270.

**9. COMMITMENTS**

The District is obligated to the City of Everett to pay for a portion of certain city projects. As of December 31, 2015, the District's share is estimated to be as follows:

2016	\$ 100,800
2017	156,000
2018	444,000
2019	598,000
2020	604,000
2021-2025	<u>4,320,000</u>
	<u>\$6,222,800</u>

As of December 31, 2015, the District is obligated under a construction contract totaling \$694,981 of which \$161,090 has been expended.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**10. PENSION PLAN**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the years ended December 31, 2015 and 2014:

Aggregate Pension Amounts – All Plans		
	2015	2014
Pension liabilities	\$1,483,784	\$1,188,613
Pension assets	\$ -	\$ -
Deferred outflows of resources	\$ 224,138	\$ 166,121
Deferred inflows of resources	\$ 231,022	\$ 517,774
Pension expense	\$ 124,277	\$ 100,725

**State Sponsored Pension Plans** - 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 and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available 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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov)

**Public Employees Retirement System (PERS)**

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

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**10. PENSION PLAN** (continued)

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

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

PERS Plan 1 Actual Contribution Rates

	<u>Employer</u>	<u>Employee</u>
2015:		
January through June	9.21%	6.00%
July through December	11.18%	6.00%
2014:		
January through December	9.21%	6.00%

The District's actual contributions to the plan were \$71,376 and \$65,352 for the year ended December 31, 2015 and 2014, respectively.

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

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**10. PENSION PLAN** (continued)

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

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

PERS Plan 2/3 Actual Contribution Rates

	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
2015:			
January through June	9.21%	4.92%	Varies
July through December	11.18%	6.12%	Varies
2014:			
January through December	9.21%	4.92%	Varies

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**10. PENSION PLAN** (continued)

The District's actual contributions to the plan were \$91,570 and \$80,851 for the year ended December 31, 2015 and 2014, respectively.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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**10. PENSION PLAN** (continued)

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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**10. PENSION PLAN (continued)**

**Estimated Rates of Return by Asset Class**

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

As of June 30, 2015 and 2014:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed income	20%	1.7%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%
	<u>100%</u>	

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
2015:			
PERS 1	\$ 959,846	\$788,372	\$ 640,921
PERS 2/3	\$2,033,420	\$695,412	\$(329,051)
2014:			
PERS 1	\$ 978,424	\$793,790	\$ 635,300
PERS 2/3	\$1,646,889	\$394,823	\$(561,523)

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**10. PENSION PLAN** (continued)

**Pension Plan Fiduciary Net Position**

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

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2015 and 2014, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2015 and 2014):

	Liability (Asset)	
	2015	2014
PERS 1	\$ 788,372	\$ 793,790
PERS 2/3	695,412	394,823
Total	<u>\$1,483,784</u>	<u>\$1,188,613</u>

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	\$793,790	\$788,372	\$ (5,418)
PERS 2/3	\$394,823	\$695,412	\$300,589
	Proportionate Share 6/30/13	Proportionate Share 6/30/14	Change in Proportion
PERS 1	\$948,727	\$793,790	\$(154,937)
PERS 2/3	\$726,004	\$394,823	\$(331,181)

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

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

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**10. PENSION PLAN** (continued)

**Pension Expense**

For the year ended December 31, 2015 and 2014, the District recognized pension expense as follows:

	<u>2015</u>	<u>2014</u>
PERS 1	\$ 7,766	\$ 12,949
PERS 2/3	105,583	86,939
Expenses and other	10,928	837
Total	<u>\$124,277</u>	<u>\$100,725</u>

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

2015:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PERS 1		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	43,133
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	38,653	-
Total	<u>\$ 38,653</u>	<u>\$ 43,133</u>
PERS 2/3		
Differences between expected and actual experience	\$ 73,923	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	185,642
Changes of assumptions	1,121	-
Changes in proportion and differences between contributions and proportionate share of contributions	60,020	2,247
Contributions subsequent to the measurement date	50,421	-
Total	<u>\$ 185,485</u>	<u>\$ 187,889</u>
Total all plans	<u>\$ 224,138</u>	<u>\$ 231,022</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**10. PENSION PLAN (continued)**

2014:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PERS 1</b>		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	99,259
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	<u>36,587</u>	<u>-</u>
Total	<u>\$ 36,587</u>	<u>\$ 99,259</u>
<b>PERS 2/3</b>		
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	418,515
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	84,029	-
Contributions subsequent to the measurement date	<u>45,505</u>	<u>-</u>
Total	<u>\$ 129,534</u>	<u>\$ 418,515</u>
Total all plans	<u>\$ 166,121</u>	<u>\$ 517,774</u>

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

Year ending December 31	PERS 1	PERS 2/3
2016	\$ (16,717)	\$ (27,055)
2017	(16,717)	(27,055)
2018	(16,717)	(39,060)
2019	7,018	40,345
2020	<u>-</u>	<u>-</u>
Total	<u>\$ (43,133)</u>	<u>\$ (52,825)</u>

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**11. 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 2015 or 2014.

**12. 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, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

- \$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 a 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 a property loss.
- Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**12. RISK MANAGEMENT** (continued)

The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is \$10 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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.

In the past three years (2015, 2014, and 2013), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**13. HEALTH & WELFARE**

Mukilteo Water and Wastewater District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**13. HEALTH & WELFARE (continued)**

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**  
**(CONTINUED)**

**13. HEALTH & WELFARE (continued)**

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

In 2015 and 2014, there were no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

**14. MAJOR SUPPLIERS**

The District purchased approximately 26% and 25% of its water from the City of Everett (the City) during 2015 and 2014, respectively, and 74% and 75% of its water from Alderwood Water and Wastewater District during 2015 and 2014, respectively. The City also provided treatment for approximately 30% and 29% of the District's wastewater during 2015 and 2014, respectively.

**15. 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:

2016	\$112,091
2017	117,310
2018	122,776
2019	29,034
2020	11,110
Thereafter	<u>111,395</u>
	<u>\$503,716</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
(CONTINUED)**

**16. 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. Effective November 1, 2015, the City assumed property in a portion of the District. The area assumed contained .3% of the District's water customers. The book value of the assets the City assumed and the corresponding loss recognized was \$87,655.

The City has the contractual right to assume ownership of additional assets of the District at certain times in the future based on the date the City annexed the related area. 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, 2015, no estimate can be made of any loss that will result from future assumptions or the year in which they may occur.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**PERS 1**  
**As of June 30 (Measurement Date)**  
**Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Employer's proportion of the net pension liability (asset)	0.015071%	0.015757%	0.016236%
Employer's proportionate share of the net pension liability	\$ 788,372	\$ 793,790	\$ 948,727
Employer's covered employee payroll	\$ -	\$ -	\$ 161,949
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	N/A	N/A	585.82%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	

**Notes to Schedule:**

1. The District had one employee in 2013 covered under PERS 1. The remaining PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL)

\* Information is presented only for those years for which information is available.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**PERS 2/3**  
**As of June 30 (Measurement Date)**  
**Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.019463%	0.019533%	0.017002%
Employer's proportionate share of the net pension liability	\$ 695,412	\$ 394,823	\$ 726,004
Employer's covered employee payroll	\$ 1,595,383	\$ 1,688,000	\$ 1,549,198
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	43.59%	23.39%	46.86%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%	

**Notes to Schedule:**

\* Information is presented only for those years for which information is available.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**PERS 1**  
**As of December 31 (Employer Reporting Date)**  
**Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or contractually required contributions	\$ 71,376	\$ 65,352	\$ 59,548
Contributions in relation to the statutorily or contractually required contributions	<u>(71,376)</u>	<u>(65,352)</u>	<u>(59,548)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ -	\$ -	\$ 97,278
Contributions as a percentage of covered employee payroll	N/A	N/A	61.21%

**Notes to Schedule:**

1. The District had one employee in 2013 covered under PERS 1. The remaining PERS 1 contributions are from the component of PERS 2 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL)
2. Plan 1 contributions in 2013 include \$26,676 for excess compensation.

\* Information is presented only for those years for which information is available.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**PERS 2/3**  
**As of December 31 (Employer Reporting Date)**  
**Last 10 Fiscal Years\***

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or contractually required contributions	\$ 91,570	\$ 80,851	\$ 79,024
Contributions in relation to the statutorily or contractually required contributions	<u>(91,570)</u>	<u>(80,851)</u>	<u>(79,024)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 1,634,782	\$ 1,617,998	\$ 1,639,794
Contributions as a percentage of covered employee payroll	5.60%	5.00%	4.82%

**Notes to Schedule:**

\* Information is presented only for those years for which information is available.

## 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.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>