



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Mukilteo Water and Wastewater
District

For the period January 1, 2018 through December 31, 2019

Published January 14, 2021

Report No. 1027650





**Office of the Washington State Auditor
Pat McCarthy**

January 14, 2021

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,

Pat McCarthy
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
January 1, 2018 through December 31, 2019**

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 6, 2021.

As discussed in Note 16 to the 2019 financial statements, the full extent of the direct or indirect financial impact on the District of the COVID-19 pandemic and related precautionary measures is unknown.

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 opinions 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 6, 2021

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Mukilteo Water and Wastewater District January 1, 2018 through December 31, 2019

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, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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, 2019 and 2018, 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 16 to the 2019 financial statements, the full extent of the direct or indirect financial impact on the District of the COVID-19 pandemic and related precautionary measures is unknown. 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 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 January 6, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

January 6, 2021

FINANCIAL SECTION

Mukilteo Water and Wastewater District January 1, 2018 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 –
2019 and 2018

Schedules of Employer Contributions – PERS 1, PERS 2/3 – 2019 and 2018

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018 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 statements of net position, statements of revenues, expenses, and changes in fund net position, statements of cash flows and notes to the financial statements.

The statements 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. These statements provide 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). They provide 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 statements of revenues, expenses, and changes in fund net position present 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 statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities over the course of the year. They present 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, 2019 AND 2018**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital Assets	\$ 94,749,997	\$ 94,678,093	\$ 93,563,652
Other Assets	25,122,320	23,277,662	21,668,443
Total Assets	<u>119,872,317</u>	<u>117,955,755</u>	<u>115,232,095</u>
Deferred Outflows of Resources	<u>457,718</u>	<u>478,323</u>	<u>557,616</u>
Long-Term Liabilities	15,041,433	16,796,405	18,779,944
Other Liabilities	4,172,156	4,052,833	4,069,441
Total Liabilities	<u>19,213,589</u>	<u>20,849,238</u>	<u>22,849,385</u>
Deferred Inflows of Resources	<u>428,944</u>	<u>384,655</u>	<u>254,101</u>
Net Investment in Capital Assets	78,902,242	77,399,380	74,567,182
Restricted Amounts	1,337,305	1,346,805	1,320,195
Unrestricted Amounts	<u>20,447,955</u>	<u>18,454,000</u>	<u>16,798,848</u>
Total Net Position	<u>\$ 100,687,502</u>	<u>\$ 97,200,185</u>	<u>\$ 92,686,225</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

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

	2019	2018	2017
Wastewater Service Revenue	\$ 8,075,437	\$ 7,895,000	\$ 7,631,525
Water Service Revenue	4,184,999	4,189,597	4,090,831
Other Wastewater Operating Revenues	197,815	251,133	261,728
Other Water Operating Revenues	244,224	236,347	256,579
Total Operating Revenues	<u>12,702,475</u>	<u>12,572,077</u>	<u>12,240,663</u>
Wastewater Operating Expenses	2,245,458	2,148,510	1,778,113
Water Operating Expenses	1,834,079	1,807,201	1,666,236
General and Administrative Expenses, Wastewater	1,430,585	1,335,639	1,343,485
General and Administrative Expenses, Water	1,240,410	1,174,280	1,072,180
Depreciation, Wastewater	2,618,046	2,479,664	2,468,609
Depreciation, Water	810,048	803,103	803,436
Total Operating Expenses	<u>10,178,626</u>	<u>9,748,397</u>	<u>9,132,059</u>
Operating Income	<u>2,523,849</u>	<u>2,823,680</u>	<u>3,108,604</u>
Nonoperating Revenue (Expense):			
Interest	468,298	391,610	173,050
Gain (Loss) on Disposal of Assets	460,426	(327,604)	(17,246)
Interest and Amortization	(291,560)	(314,582)	(310,074)
Income Before Capital Contributions	<u>3,161,013</u>	<u>2,573,104</u>	<u>2,954,334</u>
Capital Contributions	<u>326,304</u>	<u>1,940,856</u>	<u>344,969</u>
Increase in Net Position	<u>3,487,317</u>	<u>4,513,960</u>	<u>3,299,303</u>
Net Position, January 1	<u>97,200,185</u>	<u>92,686,225</u>	<u>89,386,922</u>
Net Position, December 31	<u><u>\$ 100,687,502</u></u>	<u><u>\$ 97,200,185</u></u>	<u><u>\$ 92,686,225</u></u>

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 increased in 2019 and 2018 due to increases in construction activity, donated systems, and asset purchases.

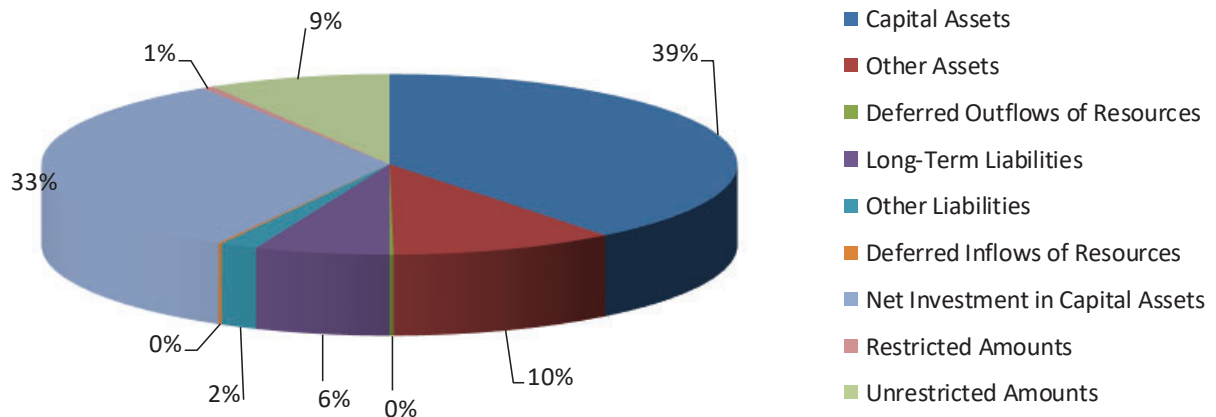
The District is located in Snohomish County, Washington.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

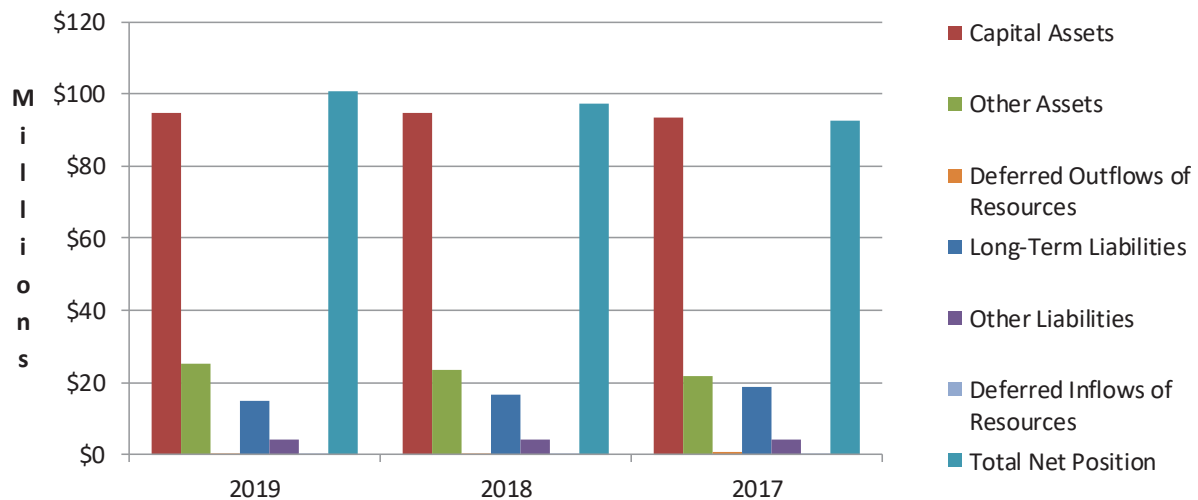
FINANCIAL POSITION (CONTINUED)

The following charts indicate the components of financial position:

2019 STATEMENT OF NET POSITION



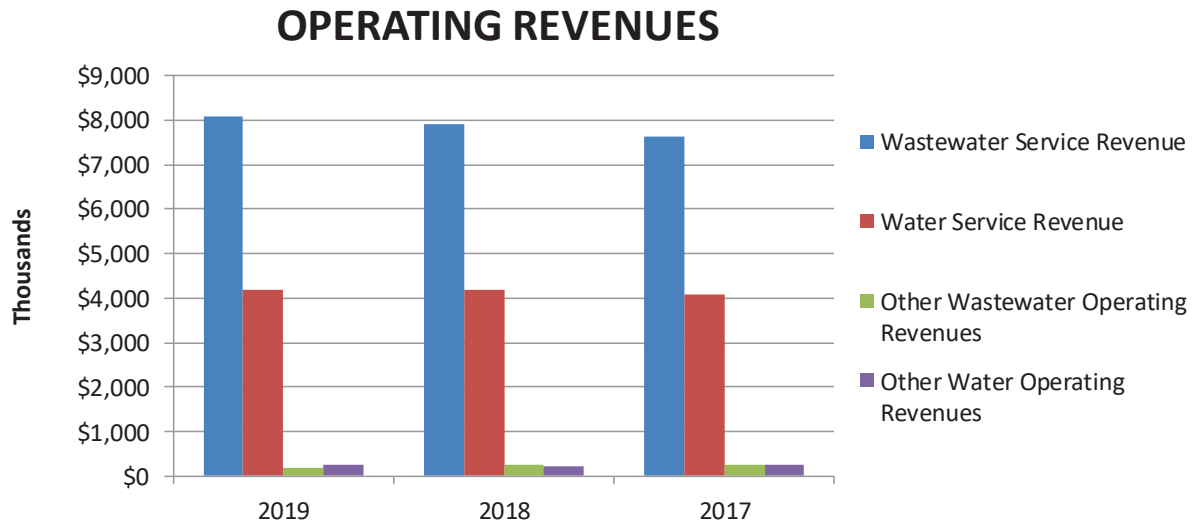
COMPARATIVE STATEMENT OF NET POSITION



**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

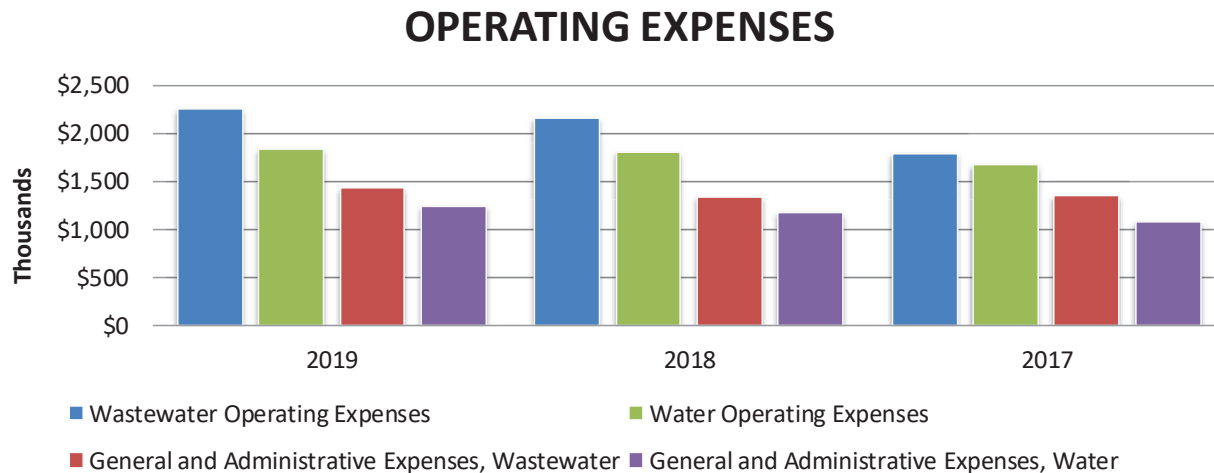
RESULTS OF OPERATIONS

Operating revenues are received primarily from water and wastewater service charges. The following chart indicates operating revenue over the last three years.



The increase in water and wastewater revenues in 2019 and 2018 were primarily due to rate increases.

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



**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

RESULTS OF OPERATIONS (CONTINUED)

Wastewater operating expenses increased in 2019 due to increase in labor costs. The increase in 2018 was due to a decrease in 2017 primarily due to a wheeling credit from the City of Everett in 2017. Water operating expenses decreased in 2019 as compared to 2018 due to the net effect of an increase in labor costs offset by a decrease in maintenance costs from 2018 and an inventory adjustment. The increase in 2018 was primarily due to an irrigation refund from the Department of revenue in 2017 and increases in labor and maintenance costs.

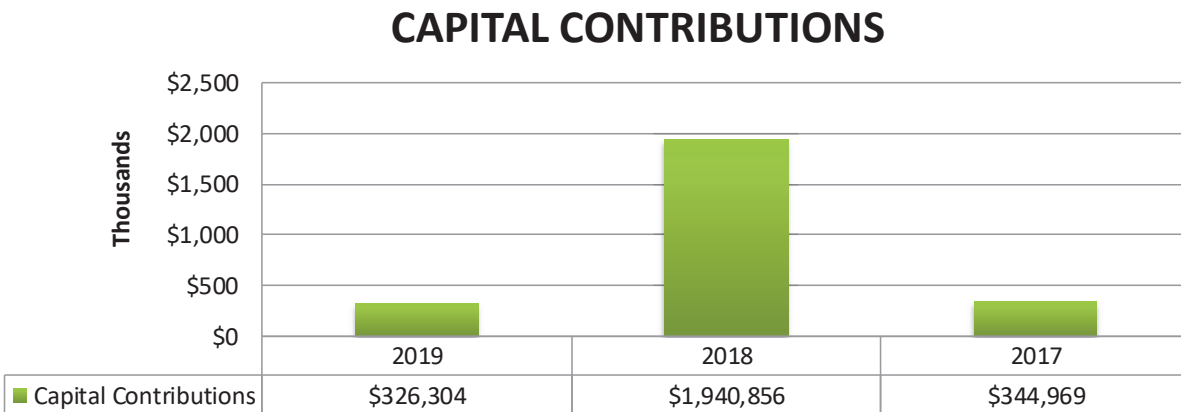
Wastewater general and administrative expenses increased in 2019 due to a new software system, as well as increases in insurance premium and legal fees. These expenses were comparable between 2018 and 2017. Water general and administrative expenses increased in 2019 due to a new software system, as well as increases in insurance premium and legal fees. The increase in 2018 was primarily due to an excise tax refund in 2017 and increased personnel costs.

The District operated at a profit in 2019, 2018, and 2017. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

CAPITAL CONTRIBUTIONS

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:



The contributions are indicative of the growth of the District and include donated systems totaling \$33,980, \$862,612, and \$4,309 for the years ended December 31, 2019, 2018, and 2017, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2019 and 2018 due to an increases in construction activity, donated systems, and asset purchases.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

Significant capital asset additions included the following:

2019		2018	
WA Ave Water Main	\$ 881,630	62nd & 93rd PI Water Main	\$ 300,816
Operations Storage Bldg	95,344	WA Ave Water Main	55,856
LS 9 Force Main	1,277,603	LS 4 Abandonment	252,314
LS 9 Replacement	250,652	LS 10 Relocation-Structural	2,562,662
WWTF Lab Bldg Replacement	312,328	LS 9 Force Main	95,866
Clarifier #1 Floor Rehab	54,506	Replacement	241,206
Operations Storage Bldg	107,518	Wastewater Rate Study	55,175
Fen & Chlor Bldg Updgrade-Evt		Fen & Chlor Bldg Updgrade-Evt	
3614	295,747	3614	50,666
Donated Systems	33,980	Donated Systems	862,612

The decrease in long-term debt in 2019 and 2018 was due to principal payments made by the District in excess of new borrowings.

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

As of December 31, 2019, the District has \$17,441,089 of cash and investments set aside in capital accounts of which \$2,508,032 is committed under existing contracts.

The District is committed to pay a portion of certain City of Everett projects. See Note 8 in the financial statements for the District's estimated share of these projects over the next 10 years.

ADDITIONAL COMMENTS

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

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for over ten years. See Note 15 in the financial statements for more details.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Unrestricted:		
Cash	\$ 490,178	\$ 751,569
Investments	20,814,375	18,632,581
Accounts Receivable	1,793,548	1,938,714
Contract Receivable - Current Portion	5,843	5,843
Interest Receivable	65,916	59,084
Inventory	298,169	272,465
Prepaid Expenses	210,829	158,452
Total Unrestricted	<u>23,678,858</u>	<u>21,818,708</u>
Restricted:		
Cash	21,120	18,119
Investments	1,280,756	1,228,561
Interest Receivable	10,316	10,507
Assessments Receivable - Current Portion	26,975	34,511
Total Restricted	<u>1,339,167</u>	<u>1,291,698</u>
Total Current Assets	25,018,025	23,110,406
Noncurrent Assets:		
Unrestricted:		
Contract Receivable, Less Current Portion	23,371	29,214
Restricted:		
Assessments Receivable, Less Current Portion	80,924	138,042
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,736,469	1,738,744
Construction in Progress	1,122,690	343,955
Capital Assets Being Depreciated:		
Plant in Service	143,398,420	141,049,097
Less: Accumulated Depreciation	<u>(51,507,582)</u>	<u>(48,453,703)</u>
Net Capital Assets	<u>94,749,997</u>	<u>94,678,093</u>
Total Noncurrent Assets	<u>94,854,292</u>	<u>94,845,349</u>
Total Assets	119,872,317	117,955,755
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding of Debt	241,936	299,833
Deferred Outflows Related to Pensions	215,782	178,490
Total Deferred Outflows of Resources	<u>457,718</u>	<u>478,323</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 120,330,035</u>	<u>\$ 118,434,078</u>

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018**

LIABILITIES	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,912,113	\$ 1,791,599
Accrued Salaries and Benefits	58,794	49,135
Compensated Absences	354,000	291,766
Customer Deposits	64,500	91,250
Deposits for Construction	22,173	55,087
Retainage Payable	4,885	43,904
Accrued Interest	21,469	23,526
Long-Term Debt - Current Maturities	1,041,436	1,023,631
Total Payable from Unrestricted Assets	<u>3,479,370</u>	<u>3,369,898</u>
Payable from Restricted Assets:		
Accounts Payable	21,120	18,119
Accrued Interest	61,666	64,816
Long-Term Debt - Current Maturities	610,000	600,000
Total Payable from Restricted Assets	<u>692,786</u>	<u>682,935</u>
 Total Current Liabilities	 4,172,156	 4,052,833
NONCURRENT LIABILITIES		
Long-Term Debt Payable from Unrestricted Assets,		
Net of Current Maturities	7,822,302	8,643,810
Long-Term Debt Payable from Restricted Assets,		
Net of Current Maturities	6,458,710	7,143,913
Compensated Absences	21,268	72,953
Net Pension Liability	739,153	935,729
Total Noncurrent Liabilities	<u>15,041,433</u>	<u>16,796,405</u>
 Total Liabilities	 19,213,589	 20,849,238
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	428,944	384,655
 Total Liabilities and Deferred Inflows of Resources	 19,642,533	 21,233,893
NET POSITION		
Net Investment in Capital Assets	78,902,242	77,399,380
Restricted for Debt Service	1,337,305	1,346,805
Unrestricted	20,447,955	18,454,000
Total Net Position	<u>100,687,502</u>	<u>97,200,185</u>
 Total Liabilities and Deferred Inflows of Resources and Net Position	 <u>\$ 120,330,035</u>	 <u>\$ 118,434,078</u>

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Service Charges:		
Residential	\$ 6,323,481	\$ 6,280,098
Commercial and Multi-Family	5,936,955	5,804,499
Total Service Charges	<u>12,260,436</u>	<u>12,084,597</u>
Inspection Fees	-	6,625
Late Charges	101,353	90,118
Miscellaneous	340,686	390,737
Total Operating Revenues	<u>12,702,475</u>	<u>12,572,077</u>
OPERATING EXPENSES		
Purchased Water	1,367,800	1,297,476
Wastewater Treatment	1,647,765	1,580,065
Operation Expenses	1,063,972	1,078,170
General and Administrative	2,670,995	2,509,919
Depreciation	3,428,094	3,282,767
Total Operating Expenses	<u>10,178,626</u>	<u>9,748,397</u>
OPERATING INCOME	2,523,849	2,823,680
NONOPERATING REVENUES (EXPENSES)		
Investment Income	462,078	382,017
Interest on Assessments	5,694	8,873
Other Interest	526	720
Net Gain (Loss) on Disposal of Assets	460,426	(327,604)
Interest and Amortization on Long-Term Debt	(291,560)	(314,582)
Total Nonoperating Revenue (Expense)	<u>637,164</u>	<u>(250,576)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,161,013	2,573,104
Capital Contributions	<u>326,304</u>	<u>1,940,856</u>
CHANGE IN NET POSITION	3,487,317	4,513,960
Net Position - Beginning of Year	<u>97,200,185</u>	<u>92,686,225</u>
NET POSITION - END OF YEAR	<u><u>\$ 100,687,502</u></u>	<u><u>\$ 97,200,185</u></u>

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 12,787,977	\$ 12,953,194
Cash Paid to Vendors	(3,901,682)	(3,642,136)
Cash Paid to and for Employees and Commissioners	(3,001,857)	(2,890,534)
Net Cash Provided by Operating Activities	<u>5,884,438</u>	<u>6,420,524</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions	292,324	1,078,244
Interest Received on Assessments and Contract Receivable	7,796	12,045
Collections on ULID Assessments	64,654	41,246
Proceeds from Sale of Assets	548,712	13,248
Proceeds from Issuance of Debt	223,005	6,798
Principal Paid on Debt	(1,626,708)	(1,645,475)
Interest Paid on Long-Term Debt	(314,073)	(340,245)
Expenditures for Plant in Service, Construction, and Preliminary Surveys and Investigations	<u>(3,564,253)</u>	<u>(3,936,516)</u>
Net Cash Used by Capital Financing Activities	<u>(4,368,543)</u>	<u>(4,770,655)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	28,976,477	21,391,353
Purchase of Investments	(30,960,745)	(22,549,153)
Collections on City of Everett Contract	5,843	13,455
Interest Received on Investments and City of Everett Contract	204,140	94,231
Net Cash Used by Investing Activities	<u>(1,774,285)</u>	<u>(1,050,114)</u>
NET INCREASE (DECREASE) IN CASH	(258,390)	599,755
Cash - Beginning of Year	<u>769,688</u>	<u>169,933</u>
CASH - END OF YEAR	<u><u>\$ 511,298</u></u>	<u><u>\$ 769,688</u></u>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash - Unrestricted	\$ 490,178	\$ 751,569
Cash - Restricted	21,120	18,119
Total	<u><u>\$ 511,298</u></u>	<u><u>\$ 769,688</u></u>

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,523,849	\$ 2,823,680
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,428,094	3,282,767
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	145,166	376,622
Inventory	(25,704)	25,618
Prepaid Expenses	(52,377)	(23,271)
Deferred Outflows Related to Pensions	(37,292)	15,646
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Deposits	34,781	68,857
Accrued Salaries and Compensated Absences	20,208	52,365
Net Pension Liability	(196,576)	(332,314)
Deferred Inflows Related to Pensions	44,289	130,554
Net Cash Provided by Operating Activities	<u>\$ 5,884,438</u>	<u>\$ 6,420,524</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	<u>\$ 33,980</u>	<u>\$ 862,612</u>

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 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 (the 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 Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Cash

The District classifies cash on hand and in checking accounts as cash.

Investments

The District has investments in money market accounts, certificates of deposit, the State of Washington Treasurer's Local Government Investment Pool and U.S. Government Agency Securities.

Investments in money market accounts and the State of Washington Treasurer's Local Government Investment Pool are stated at share price, which is equal to amortized cost. Certificates of deposit are stated at amortized cost.

U.S. Government Agency Securities are stated at fair value.

Accounts Receivable

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

Inventory

Inventory consists of materials and supplies available for future use and is stated at the lower of cost (average) or net realizable value.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 acquisition value, which is determined by 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:

Reservoirs	15 - 100 Years
Water System	5 - 100 Years
Wastewater System	5 - 100 Years
Treatment Plant and Capacity	10 - 100 Years
Office Building and Improvements	5 - 40 Years
Equipment and Other	2 - 25 Years

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.

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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

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. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. 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 inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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:

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.

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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating 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 nonoperating 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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are 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).

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. Government agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks, foreign and domestic bankers acceptances, commercial paper and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

	2019	2018
Money Market Accounts	\$ 1,754,254	\$ 1,713,825
Certificates of Deposit	2,184,600	-
Local Government Investment Pool	12,256,818	7,755,354
U.S. Government Agency Issues	5,899,459	10,391,963
Total	<u>\$ 22,095,131</u>	<u>\$ 19,861,142</u>

Investments Measured at Amortized Cost

	2019	2018
Money Market Accounts	\$ 1,754,254	\$ 1,713,825
Certificates of Deposit	2,184,600	-
Local Government Investment Pool	12,256,817	7,755,354
Total	<u>\$ 16,195,671</u>	<u>\$ 9,469,179</u>

Investments in Local Government Investment Pool

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the LGIP. The policy is reviewed annually and proposed changes are reviewed by the LGIP advisory committee.

Investment in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by accounting principles generally accepted in the United States of America, as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes assets and liabilities valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liabilities.

Level 3: Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the District's own assumptions about the assumptions market participants would use in pricing the asset or liability.

As of December 31, the District had the following investments measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
2019				
U.S. Government Agency Issues	\$ -	\$ 5,899,459	\$ -	\$ 5,899,459
2018				
U.S. Government Agency Issues	\$ -	\$ 10,391,963	\$ -	\$ 10,391,963

Interest Rate Risk

Interest rate risk is the risk the District may face should interest rate variances affect the fair value of investments. The District has implemented a formal 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.

The weighted average maturity of the District's certificates of deposit and U.S. Government Agency Issues as of December 31, 2019 and 2018 was 1.24 years and .46 years, respectively.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2019 and 2018, the District's investments in U.S. Government Agency issues were rated Aaa by Moodys.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy is that all securities be held in safekeeping by the District, an independent third-party financial institution, or the District's designated depository. The District's investments in U.S. Government Agency Issues are held in safekeeping with U.S. Bank.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The District's policy for concentration of credit risk is as follows:

<u>ISSUER TYPE</u>	<u>Percent of Total Portfolio Maximum</u>	<u>Per Issuer Constraints Maximum*</u>
U.S. Treasury Obligations	100%	100%
GSE Agency Obligations	100%	20%
Local Government Investment Pool	100%	N/A
Municipal Debt Obligations	30%	5%
Bankers Acceptance	20%	5%
Time Deposits	20%	10%
Certificates of Deposits	20%	10%
Commercial Paper	20%	5%

Investments in any one issuer that represent 5% or more of total investments are as follows:

	<u>2019</u>	<u>2018</u>
Federal Home Loan Mortgage Corporation	\$ 2,899,408	\$ 2,988,873
Federal Home Loan Bank	3,000,051	3,986,689
Resolution Funding Corporation	-	2,018,665
Federal Farm Credit Bank	-	1,397,736

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 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 debt service and other special reserve requirements. Restricted assets are as follows:

	Sno King Coalition Assets	Revenue and Refunding Bond Funds	Revenue Bond and DOE Loan Reserve Funds	Total
<u>2019</u>				
Current Restricted Assets:				
Cash	\$ 21,120	\$ -	\$ -	\$ 21,120
Investments	-	355,092	925,664	1,280,756
Interest Receivable	-	9,134	1,182	10,316
Assessments Receivable	-	26,975	-	26,975
Total	21,120	391,201	926,846	1,339,167
Noncurrent Restricted Assets:				
Assessments Receivable	-	80,924	-	80,924
Total	<u>\$ 21,120</u>	<u>\$ 472,125</u>	<u>\$ 926,846</u>	<u>\$ 1,420,091</u>
<u>2018</u>				
Current Restricted Assets:				
Cash	\$ 18,119	\$ -	\$ -	\$ 18,119
Investments	-	312,989	915,572	1,228,561
Interest Receivable	-	7,475	3,032	10,507
Assessments Receivable	-	34,511	-	34,511
Total	18,119	354,975	918,604	1,291,698
Noncurrent Restricted Assets:				
Assessments Receivable	-	138,042	-	138,042
Total	<u>\$ 18,119</u>	<u>\$ 493,017</u>	<u>\$ 918,604</u>	<u>\$ 1,429,740</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, 2019 and 2018 was \$885,624 and \$867,074, respectively. The debt service and reserve accounts are fully funded.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows at December 31:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2019</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,738,744	\$ -	\$ (2,275)	\$ 1,736,469
Construction in Progress	343,955	3,493,243	(2,714,508)	1,122,690
Total	2,082,699	3,493,243	(2,716,783)	2,859,159
Capital Assets Being Depreciated:				
Reservoirs	8,056,261	-	-	8,056,261
Water System	32,258,183	968,979	(7,468)	33,219,694
Wastewater System	60,475,469	1,417,448	(172,649)	61,720,268
Treatment Plant and Capacity	31,394,828	78,530	(5,000)	31,468,358
Office Building and Improvements	5,335,982	287,198	(233,303)	5,389,877
Equipment and Other	3,528,374	71,206	(55,618)	3,543,962
Total	141,049,097	2,823,361	(474,038)	143,398,420
Accumulated Depreciation:				
Reservoirs	(1,677,871)	(147,505)	-	(1,825,376)
Water System	(8,378,036)	(488,243)	2,583	(8,863,696)
Wastewater System	(20,941,807)	(1,428,567)	97,006	(22,273,368)
Treatment Plant and Capacity	(12,976,103)	(1,015,538)	5,000	(13,986,641)
Office Building and Improvements	(2,231,720)	(139,411)	215,064	(2,156,067)
Equipment and Other	(2,248,166)	(208,830)	54,562	(2,402,434)
Total	(48,453,703)	(3,428,094)	374,215	(51,507,582)
Net Capital Assets	<u>\$ 94,678,093</u>	<u>\$ 2,888,510</u>	<u>\$ (2,816,606)</u>	<u>\$ 94,749,997</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2018</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,738,744	\$ -	\$ -	\$ 1,738,744
Construction in Progress	1,204,817	3,744,416	(4,605,278)	343,955
Total	2,943,561	3,744,416	(4,605,278)	2,082,699
Capital Assets Being Depreciated:				
Reservoirs	8,056,261	-	-	8,056,261
Water System	31,457,968	816,989	(16,774)	32,258,183
Wastewater System	58,557,665	4,301,320	(2,383,516)	60,475,469
Treatment Plant and Capacity	31,282,573	314,893	(202,638)	31,394,828
Office Building and Improvements	5,330,326	5,656	-	5,335,982
Equipment and Other	3,599,724	160,064	(231,414)	3,528,374
Total	138,284,517	5,598,922	(2,834,342)	141,049,097
Accumulated Depreciation:				
Reservoirs	(1,530,366)	(147,505)	-	(1,677,871)
Water System	(7,909,371)	(478,564)	9,899	(8,378,036)
Wastewater System	(21,836,096)	(1,294,728)	2,189,017	(20,941,807)
Treatment Plant and Capacity	(12,054,452)	(1,007,025)	85,374	(12,976,103)
Office Building and Improvements	(2,090,398)	(141,322)	-	(2,231,720)
Equipment and Other	(2,243,743)	(213,623)	209,200	(2,248,166)
Total	(47,664,426)	(3,282,767)	2,493,490	(48,453,703)
Net Capital Assets	<u>\$ 93,563,652</u>	<u>\$ 6,060,571</u>	<u>\$ (4,946,130)</u>	<u>\$ 94,678,093</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 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:

Description	2019	2018
\$7,000,000 loan: Payable \$371,875 annually through the year 2026, plus interest at .5 annual percentage rate.	\$ 2,603,125	\$ 2,975,000
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	426,900	480,263
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	426,900	480,263
\$6,739,575 loan: Payable \$352,199 annually through the year 2028, plus interest at .5 annual percentage rate.	3,169,787	3,521,986
\$1,950,000 authorized, \$1,332,337 drawn to December 31, 2019. Based on draws to December 31, 2019, payable \$80,301 annually through the year 2032, plus interest at .5 annual percentage rate.	1,043,910	887,364
\$888,000 authorized, \$691,061 drawn to December 31, 2019. Based on draws to December 31, 2019, payable \$37,843 annually through the year 2032, plus interest at .25 annual percentage rate.	491,965	529,808
Washington State Department of Ecology Loans \$1,145,247 loan: Payable \$33,783 semi-annually through June 2028, including interest at 1.5 annual percentage rate.	537,212	596,030
Drinking Water State Revolving Loan: \$622,968 loan: Payable \$32,788 annually through the year 2024, plus interest at 1.50 annual percentage rate.	163,939	196,727
Subtotal	8,863,738	9,667,441
Less: Current Maturities	1,041,436	1,023,631
Total	<u>\$ 7,822,302</u>	<u>\$ 8,643,810</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS (CONTINUED)

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2019):

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,041,436	\$ 49,521	\$ 1,090,957
2021	1,042,339	43,858	1,086,197
2022	1,043,255	37,801	1,081,056
2023	1,044,184	31,730	1,075,914
2024	1,045,127	25,644	1,070,771
2025-2029	3,292,965	48,232	3,341,197
2030-2032	354,432	2,976	357,408
Total	<u>\$ 8,863,738</u>	<u>\$ 239,762</u>	<u>\$ 9,103,500</u>

NOTE 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 at December 31:

<u>Description</u>	<u>2019</u>	<u>2018</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 at 4.10 to 4.30 annual percentage rate.	\$ 100,000	\$ 130,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually at 2.25 to 4.00 annual percentage rate.	2,235,000	2,390,000
\$4,885,000 issued May 21, 2015 for refunding, due serially through the year 2028, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate.	4,400,000	4,815,000
Subtotal	6,735,000	7,335,000
Less: Current Maturities	610,000	600,000
Add: Unamortized Bond (Discounts) Premiums	333,710	408,913
Total	<u>\$ 6,458,710</u>	<u>\$ 7,143,913</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 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>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 610,000	\$ 246,663	\$ 856,663
2021	620,000	229,287	849,287
2022	640,000	211,587	851,587
2023	660,000	187,574	847,574
2024	660,000	162,799	822,799
2025-2029	3,105,000	419,300	3,524,300
2030-2031	440,000	26,600	466,600
Total	<u>\$ 6,735,000</u>	<u>\$ 1,483,810</u>	<u>\$ 8,218,810</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows at December 31:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2019</u>					
Public Works Trust					
Fund Loans	\$ 8,874,684	\$ 223,005	\$ (935,102)	\$ 8,162,587	\$ 948,943
Washington State Department of Ecology Loan	596,030	-	(58,818)	537,212	59,707
Drinking Water State Revolving Fund Loan	196,727	-	(32,788)	163,939	32,786
Revenue Bonds	7,335,000	-	(600,000)	6,735,000	610,000
Bond Premium	409,047	-	(75,256)	333,791	-
Bond Discount	(134)	-	53	(81)	-
Compensated Absences	364,719	364,537	(353,988)	375,268	354,000
Net Pension Liability	935,729	-	(196,576)	739,153	-
Total	<u>\$ 9,837,118</u>	<u>\$ 364,537</u>	<u>\$ (1,317,373)</u>	<u>\$ 8,884,282</u>	<u>\$ 1,056,493</u>
<u>2018</u>					
Public Works Trust					
Fund Loans	\$ 9,842,631	\$ 6,797	\$ (974,744)	\$ 8,874,684	\$ 932,026
Washington State Department of Ecology Loan	653,973	-	(57,943)	596,030	58,818
Drinking Water State Revolving Fund Loan	229,514	-	(32,787)	196,727	32,787
Revenue Bonds	7,915,000	-	(580,000)	7,335,000	600,000
Bond Premium	491,183	-	(82,136)	409,047	-
Bond Discount	(611)	-	477	(134)	-
Compensated Absences	315,932	341,461	(292,674)	364,719	291,766
Net Pension Liability	1,268,043	-	(332,314)	935,729	-
Total	<u>\$ 10,873,034</u>	<u>\$ 341,461</u>	<u>\$ (1,377,377)</u>	<u>\$ 9,837,118</u>	<u>\$ 983,371</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 COMMITMENTS

The District is obligated to the City of Everett to pay for a portion of certain city projects. As of December 31, 2019, the District's share is estimated to be as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2020	\$ 71,200
2021	56,000
2022	56,000
2023	40,000
2024	-
Thereafter	3,488,000
Total	<u>\$ 3,711,200</u>

As of December 31, 2019, the District is obligated under construction contracts totaling \$2,784,347 of which \$276,315 has been expended.

NOTE 9 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2019 and 2018:

<u>Aggregate Pension Amounts – All Plans</u>		
	<u>2019</u>	<u>2018</u>
Pension Liabilities	\$ 739,153	\$ 935,729
Deferred Outflows of Resources	215,782	178,490
Deferred Inflows of Resources	428,944	384,655
Pension Expense	79,623	70,257

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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

State Sponsored Pension Plans (Continued)

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
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at 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.

PERS Plan 1 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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 5 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 nonduty 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 5 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%. 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%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued)

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2019</u>		
January through June		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	12.83 %	6.00 %
July through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	12.86 %	6.00 %
<u>2018</u>		
January through August		
PERS Plan 1	7.49 %	6.00 %
PERS Plan 1 UAAL	5.03	
Administrative Fee	0.18	
Total	12.70 %	6.00 %
September through December		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	12.83 %	6.00 %

The District's actual contributions to the plan were \$102,934 and \$98,696 for the years ended December 31, 2019 and 2018, respectively.

PERS Plan 2/3 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 5 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 (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 3% 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 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2019</u>			
January through June			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	
July through December			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	
<u>2018</u>			
January through August			
PERS Plan 2/3	7.49 %	7.38 %	Varies
PERS Plan 1 UAAL	5.03		
Administrative Fee	0.18		
Total	<u>12.70 %</u>	<u>7.38 %</u>	
September through December			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	

The District's actual contributions to the plan were \$160,276 and \$146,231 for the years ended December 31, 2019 and 2018, respectively.

Actuarial Assumptions

The 2019 total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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* and the *2017 Economic Experience Study*.

The 2018 TPL for each of the DRS plans was determined using the actuarial valuation completed in 2018, with a valuation date of June 30, 2017. 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* and the *2017 Economic Experience Study*.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional 2019 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019 and June 30, 2018. 2019 Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, and 2018 Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- **Investment rate of return:** 7.4%

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% 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.

There were changes in methods and assumptions between the 2019 and 2018 valuations.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

There were changes in methods and assumptions between the 2018 and 2017 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4%.

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% 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 7.4% 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 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 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% and represents the WSIB's most recent long-term estimate of broad economic inflation. As of June 30:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2019</u>		
Fixed Income		
Tangible Assets	20 %	2.20 %
Real Estate	7	5.10
Global Equity	18	5.80
Private Equity	32	6.30
Total	23	9.30
<u>2018</u>		
Fixed Income	20 %	1.70 %
Tangible Assets	7	4.90
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	100 %	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
<u>2019</u>			
PERS 1	\$ 698,072	\$ 557,423	\$ 435,393
PERS 2/3	1,393,797	181,730	(812,851)
<u>2018</u>			
PERS 1	\$ 770,702	\$ 627,129	\$ 502,765
PERS 2/3	1,411,543	308,600	(595,691)

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 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, 2019 and 2018, the District reported a net pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2019 and 2018):

	2019	2018
PERS 1	\$ 557,423	\$ 627,129
PERS 2/3	181,730	308,600
Total	<u>\$ 739,153</u>	<u>\$ 935,729</u>

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.014042 %	0.014496 %	0.000454 %
PERS 2/3	0.018074	0.018709	0.000635
	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.013762 %	0.014042 %	0.000280 %
PERS 2/3	0.017701	0.018074	0.000373

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 Non-employer Allocations*.

The 2019 and 2018 collective net pension liability (asset) was measured as of June 30, 2019 and 2018, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018 and 2017, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

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

Pension Expense

For the years ended December 31, 2019 and 2018, the District recognized pension expense as follows:

	2019	2018
PERS 1	\$ 46,557	\$ 68,537
PERS 2/3	27,076	(9,726)
Expenses and Other	5,990	11,446
Total	<u>\$ 79,623</u>	<u>\$ 70,257</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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2019		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	37,240
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	49,459	-
Total PERS 1	<u>\$ 49,459</u>	<u>\$ 37,240</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 52,066	\$ 39,071
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	264,525
Changes of Assumptions	4,654	76,248
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	27,715	11,860
Contributions Subsequent to the Measurement Date	81,888	-
Total PERS 2/3	<u>\$ 166,323</u>	<u>\$ 391,704</u>
Total All Plans	<u>\$ 215,782</u>	<u>\$ 428,944</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 PENSION PLAN (CONTINUED)

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

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2018</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	24,922
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	50,468	-
Total PERS 1	<u>\$ 50,468</u>	<u>\$ 24,922</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 37,826	\$ 54,030
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	189,371
Changes of Assumptions	3,610	87,825
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	12,169	28,507
Contributions Subsequent to the Measurement Date	74,417	-
Total PERS 2/3	<u>\$ 128,022</u>	<u>\$ 359,733</u>
Total All Plans	<u>\$ 178,490</u>	<u>\$ 384,655</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:

<u>Year Ending December 31,</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2020	\$ (8,221)	\$ (81,263)
2021	(19,473)	(133,037)
2022	(6,949)	(57,483)
2023	(2,597)	(29,492)
2024	-	(10,763)
Thereafter	-	4,769
Total	<u>\$ (37,240)</u>	<u>\$ (307,269)</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 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 the plan in 2019 or 2018.

NOTE 11 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 counties and two 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, 2019, there are 547 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 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

\$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 RISK MANAGEMENT (CONTINUED)

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions 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. 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, cyber, and automobile physical damage to insured vehicles. Liability coverage limit is \$20 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 year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one 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 board members governs Enduris. The Pool’s 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 (2019, 2018, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 12 HEALTH AND WELFARE

The 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 HEALTH AND WELFARE (CONTINUED)

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 noncity 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.

As of December 31, 2019, 261 cities/towns/noncity 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, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and 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. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. 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 six 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 HEALTH AND WELFARE (CONTINUED)

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.

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). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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.

NOTE 13 MAJOR SUPPLIERS

The District purchased approximately 22% and 22% of its water from the City of Everett (the City) during 2019 and 2018, respectively, and 78% and 78% of its water from Alderwood Water and Wastewater District during 2019 and 2018, respectively. The City also provided treatment for approximately 31% and 30% of the District's wastewater during 2019 and 2018, respectively.

NOTE 14 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:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 110,037
2021	115,539
2022	121,316
2023	127,381
2024	19,376
Thereafter	61,115
Total	<u>\$ 554,765</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 15 ANNEXATION

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for at least ten years. Although the City has not indicated it will exercise these rights, it is reasonably possible that future assumptions of assets will occur. As of December 31, 2019, no estimate can be made of any loss that will result from future assumptions or the year in which they may occur.

NOTE 16 SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Specific to the District, COVID 19 may impact various parts of its 2020 operations and financial results, including slower collections of receivables and reductions in operating revenues and capital contributions. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

**MUKILTEO WATER AND WASTEWATER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.014496 %	\$ 557,423	\$ 2,073,459	26.88 %	67.12 %
2018	0.014042	627,129	1,867,821	33.58 %	63.22
2017	0.013762	653,005	1,738,179	37.57	61.24
2016	0.014048	754,470	1,674,792	45.05	57.03
2015	0.015071	788,372	1,595,383	49.42	59.10
2014	0.015757	793,790	1,688,000	47.03	61.09
2013	0.016236	948,727	1,711,147	55.44	

Notes to Schedule:

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.

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.018709 %	\$ 181,730	\$ 2,073,459	8.76 %	97.77 %
2018	0.018074	308,600	1,867,821	16.52	95.77
2017	0.017701	615,038	1,738,179	35.38	90.97
2016	0.018013	906,964	1,674,792	54.15	85.82
2015	0.019463	695,412	1,595,383	43.59	89.20
2014	0.019533	394,823	1,688,000	23.39	93.29
2013	0.017002	726,004	1,549,198	46.86	

Notes to Schedule:

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

**MUKILTEO WATER AND WASTEWATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ 102,934	\$ (102,934)	\$ -	\$ 2,078,349	4.95 %
2018	98,696	(98,696)	-	1,949,884	5.06
2017	88,230	(88,230)	-	1,802,035	4.90
2016	81,199	(81,199)	-	1,702,283	4.77
2015	71,376	(71,376)	-	1,634,782	4.37
2014	65,352	(65,352)	-	1,617,998	4.04
2013	59,548	(59,548)	-	1,737,072	3.43

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.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2019	\$ 160,276	\$ (160,276)	\$ -	\$ 2,078,349	7.71 %
2018	146,231	(146,231)	-	1,949,884	7.50
2017	123,283	(123,283)	-	1,802,035	6.84
2016	106,052	(106,052)	-	1,702,283	6.23
2015	91,570	(91,570)	-	1,634,782	5.60
2014	80,851	(80,851)	-	1,617,998	5.00
2013	79,024	(79,024)	-	1,639,794	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	
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Toll-free Citizen Hotline	(866) 902-3900
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