

Washington State Auditor's Office
Financial Statements Audit Report

Mukilteo Water and Wastewater District
Snohomish County

Audit Period
January 1, 2008 through December 31, 2009

Report No. 1004593

Issue Date
November 22, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 22, 2010

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**Mukilteo Water and Wastewater District
Snohomish County
January 1, 2008 through December 31, 2009**

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Financial Statements.....	3
Financial Section.....	5

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

**Mukilteo Water and Wastewater District
Snohomish County
January 1, 2008 through December 31, 2009**

Board of Commissioners
Mukilteo Water and Wastewater District
Mukilteo, Washington

We have audited the basic financial statements of the Mukilteo Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated November 9, 2010.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 9, 2010

Independent Auditor's Report on Financial Statements

Mukilteo Water and Wastewater District Snohomish County January 1, 2008 through December 31, 2009

Board of Commissioners
Mukilteo Water and Wastewater District
Mukilteo, Washington

We have audited the accompanying basic financial statements of the Mukilteo Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2009 and 2008, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mukilteo Water and Wastewater District, as of December 31, 2009 and 2008, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

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

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 9, 2010

Financial Section

**Mukilteo Water and Wastewater District
Snohomish County
January 1, 2008 through December 31, 2009**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009 and 2008

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2008 and 2009

Statement of Revenues, Expenses and Changes in Net Assets – 2009 and 2008

Statement of Cash Flows – 2009 and 2008

Notes to Financial Statements –2009 and 2008

MUKILTEO WATER AND WASTEWATER DISTRICT

INTRODUCTION

Mukilteo Water and Wastewater District (formerly Mukilteo Water 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. On November 27, 2007, the District merged with Olympus Terrace Sewer District. The District is the surviving entity. The merger has been accounted for as a pooling of interests. Accordingly, all amounts and disclosures in this Management's Discussion and Analysis and in the financial statements include the accounts of Olympus Terrace Sewer District for the entire period presented.

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, 2009 and 2008 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a balance sheet, statement of revenues, expenses and

changes in net assets, statement of cash flows and notes to the financial statements.

The balance sheet provides a record, or snapshot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

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

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

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

CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS AT DECEMBER 31

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital assets	\$ 85,658,152	\$ 79,580,758	\$ 74,810,481
Other assets	<u>19,320,665</u>	<u>18,331,012</u>	<u>17,899,683</u>
Total assets	104,978,817	97,911,770	92,710,164
Long term liabilities	23,079,233	19,848,390	11,775,760
Other Liabilities	<u>3,953,587</u>	<u>3,556,629</u>	<u>9,076,802</u>
Total liabilities	27,032,820	23,405,019	20,852,562
Capital assets, net of related debt	63,636,119	61,790,677	58,549,375
Restricted amounts	1,173,755	1,035,199	1,304,955
Unrestricted amounts	<u>13,136,123</u>	<u>11,680,875</u>	<u>12,003,272</u>
Total net assets	<u>\$ 77,945,997</u>	<u>\$ 74,506,751</u>	<u>\$ 71,857,602</u>

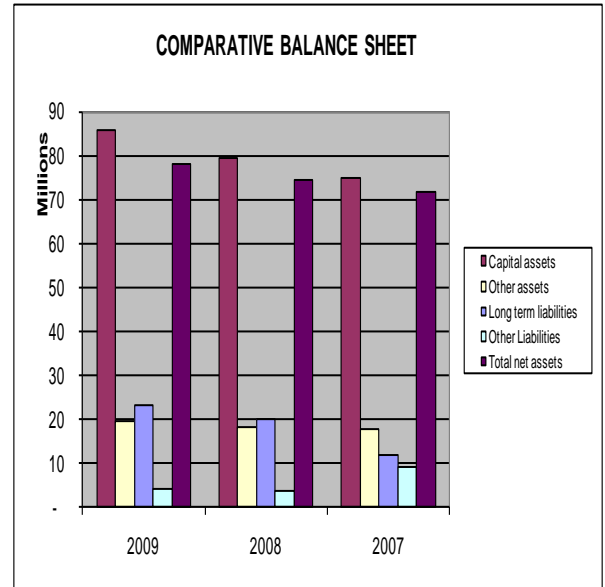
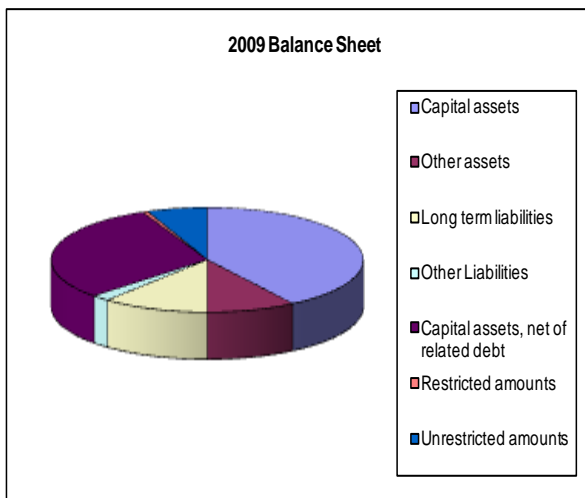
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Wastewater service revenue	\$ 4,830,742	\$ 4,793,955	\$ 4,302,755
Water service revenue	3,235,400	2,988,437	2,951,729
Other wastewater operating revenues	293,304	52,481	135,855
Other water operating revenues	<u>467,194</u>	<u>402,386</u>	<u>371,596</u>
Total operating revenues	<u>8,826,640</u>	<u>8,237,259</u>	<u>7,761,935</u>
Wastewater operating expenses	1,779,044	2,129,905	2,107,990
Water operating expenses	1,768,883	1,689,566	1,677,579
General and administrative expenses, wastewater	1,226,742	1,334,324	1,208,711
General and administrative expenses, water	1,094,822	1,102,004	986,761
Depreciation and amortization, wastewater	1,433,352	1,283,540	1,222,820
Depreciation and amortization, water	<u>581,017</u>	<u>548,634</u>	<u>536,902</u>
Total operating expenses	<u>7,883,860</u>	<u>8,087,973</u>	<u>7,740,763</u>
Operating income	942,780	149,286	21,172
Non-operating revenue			
Interest	113,798	380,883	741,745
FEMA grant	-	233,471	131,643
Net gain on disposal of assets	332,126	6,379	
Other	-	1,924	
Non-operating expenses			
Interest and amortization	(1,963)	-	(14,253)
Loss on asset disposition	<u>-</u>	<u>-</u>	<u>(4,853)</u>
Income before capital contributions	1,386,741	771,943	875,454
Capital contributions	2,052,505	1,877,206	1,070,879
Decrease in assessment	<u>-</u>	<u>-</u>	<u>(13,352)</u>
Increase in net assets	<u>\$ 3,439,246</u>	<u>\$ 2,649,149</u>	<u>\$ 1,932,981</u>

FINANCIAL POSITION

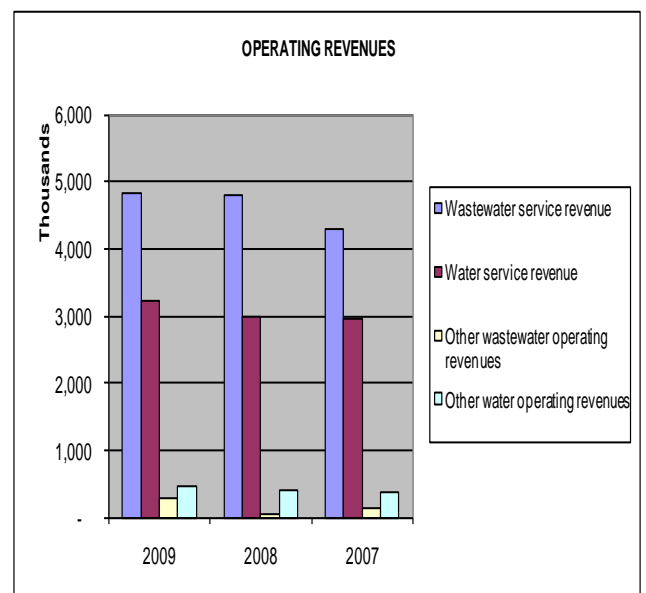
The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary. The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets are increasing due to growth in the District's customer base and upgrades to the District's water and wastewater system. The District is located in Snohomish County, Washington.

The following charts indicate the components of financial position.



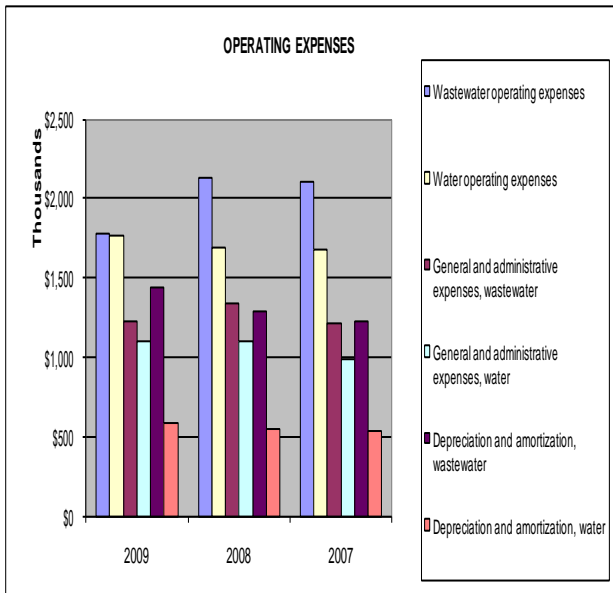
RESULTS OF OPERATIONS

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



The increase in revenue in 2009 and 2008 is due to rate increases.

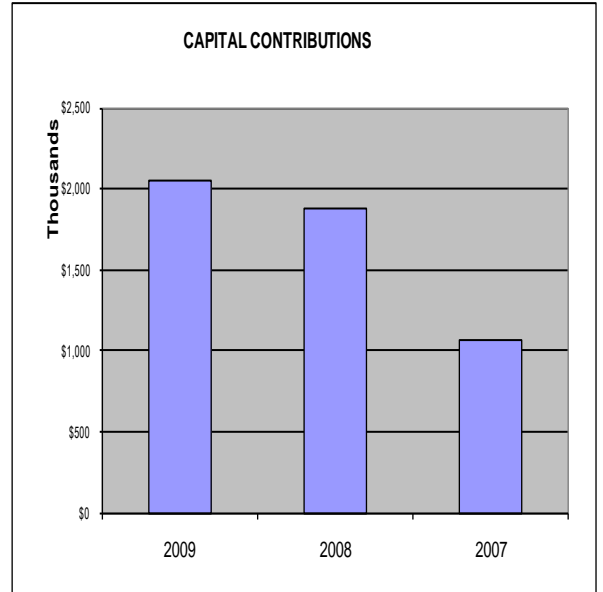
The rate increases were necessary due to inflationary increases in expenses and increases in long-term debt payments. The following chart indicates operating expenses over the last three years.



Expenses in 2008 were higher than 2009 and 2007 primarily due to repairs to the Big Gulch Trunk line necessitated by storm damage.

The District operated at a profit in 2009, 2008 and 2007. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems. The following chart indicates capital contributions over the last three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$593,591, \$1,468,798 and \$366,024 for the years ended December 31, 2009, 2008 and 2007, respectively.

CAPITAL ASSETS AND LONG-TERM DEBT

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

2009:	
112 th Street booster station	\$ 108,462
Aeration ditch A and B	1,286,921
Big Gulch	5,396,880
Donated Systems	593,591

2008:	
Westgate master meter	\$ 124,264
Main replacement – Sound Transit	234,094
Lift station #14	228,310
Aeration basin A	205,448
Big Gulch	3,469,064
Donated Systems	1,468,798

The increase in long-term debt in 2009 was due to receipt of additional Public Works Trust Fund loan funds for the Big Gulch project. The increase in long-term debt in 2008 was due to the issuance of Water and Wastewater Improvement and Refunding Revenue Bonds and receipt of Public Works Trust Fund loan funds. The proceeds of the bonds were used to pay principal due on Bond Anticipation Notes, contribute to the refunding of the 2003 Revenue Bonds and to provide funding for the Big Gulch project. The Public Works Trust Fund loan proceeds received in 2008 were also used for the Big Gulch project.

The Big Gulch project replaced a sewer trunk main due to erosion of the pipe and cover bedding.

See notes 4, 5, 6 and 7 in the financial statements for detail activity in capital assets, short-term debt and long-term debt and note 8 for details regarding the refunding of the 2003 bonds.

As of December 31, 2009, the District has \$13,351,221 of cash and investments set aside in construction, capital improvement and capital replacement accounts.

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

ADDITIONAL COMMENTS

The District is dependant 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 indicated that it will assume a portion of the District during 2010 and has the contractual right to assume ownership of additional 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

BALANCE SHEET
DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Unrestricted:		
Cash	\$ 155,582	\$ 152,138
Investments	12,359,311	11,444,203
Accounts receivable	1,827,658	1,545,533
Grants receivable	178,789	280,046
Contract receivable, current portion	28,613	
Interest receivable		17,620
Inventory	145,162	131,897
Prepaid expenses	83,543	81,846
	<u>14,778,658</u>	<u>13,653,283</u>
Restricted:		
Cash		1,875
Investments	3,889,233	4,026,784
Interest receivable	17,736	26,231
Assessments receivable – current portion	43,606	47,847
	<u>3,950,575</u>	<u>4,102,737</u>
NON CURRENT ASSETS:		
Unrestricted:		
Contract receivable, less current portion	<u>82,855</u>	
	<u>82,855</u>	
Restricted:		
Assessments receivable, less current portion	<u>508,577</u>	<u>574,992</u>
	<u>508,577</u>	<u>574,992</u>
Capital assets:		
Plant in service	112,467,035	86,449,798
Less accumulated depreciation	<u>(28,862,925)</u>	<u>(27,181,477)</u>
Net plant in service	83,604,110	59,268,321
Construction work in progress	<u>2,054,042</u>	<u>20,312,437</u>
	<u>85,658,152</u>	<u>79,580,758</u>
TOTAL	<u>\$104,978,817</u>	<u>\$ 97,911,770</u>

(continued)

The accompanying notes are an integral part of this statement.

MUKILTEO WATER AND WASTEWATER DISTRICT

BALANCE SHEET (continued)
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES:		
Payable from unrestricted assets:		
Accounts payable	\$ 1,336,947	\$ 1,448,826
Accrued salaries and benefits	6,987	11,801
Accrued compensated absences	267,805	312,656
Customer deposits	34,750	34,850
Deposits for construction	15,338	41,059
Retainage payable	24,873	83,427
Accrued interest	38,690	39,788
Long-term debt – current maturities	927,138	552,707
	<u>2,652,528</u>	<u>2,525,114</u>
Payable from restricted assets:		
Accounts payable	310,394	223,103
Accrued interest	88,645	113,412
Retainage payable	172,020	
Long-term debt – current maturities	730,000	695,000
	<u>1,301,059</u>	<u>1,031,515</u>
NON CURRENT LIABILITIES:		
Long-term debt payable from unrestricted assets, net of current maturities	14,831,765	10,907,045
Long-term debt payable from restricted assets, net of current maturities	8,247,468	8,941,345
	<u>23,079,233</u>	<u>19,848,390</u>
TOTAL LIABILITIES	<u>27,032,820</u>	<u>23,405,019</u>
NET ASSETS:		
Invested in capital assets, net of related debt	63,636,119	61,790,677
Restricted for debt service	1,173,755	1,035,199
Unrestricted	13,136,123	11,680,875
	<u>77,945,997</u>	<u>74,506,751</u>
TOTAL	<u>\$104,978,817</u>	<u>\$97,911,770</u>

(concluded)

The accompanying notes are an integral part of this statement.

MUKILTEO WATER AND WASTEWATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Service charges:		
Residential	\$ 5,045,926	\$ 4,899,593
Commercial	2,958,287	2,820,693
Schools	61,929	62,106
Total service charges	<u>8,066,142</u>	<u>7,782,392</u>
Inspection fees	26,555	11,322
Late charges	39,312	34,472
Miscellaneous	694,631	409,073
	<u>8,826,640</u>	<u>8,237,259</u>
 OPERATING EXPENSE:		
Purchased water	1,422,361	1,315,483
Wastewater treatment	1,345,669	1,326,184
Operation expenses	779,897	1,177,804
General and administrative	2,321,564	2,436,328
Depreciation	2,014,369	1,832,174
	<u>7,883,860</u>	<u>8,087,973</u>
 OPERATING INCOME	<u>942,780</u>	<u>149,286</u>
 NON-OPERATING REVENUE:		
Investment income	82,804	348,671
Interest on assessments	28,976	32,204
Other interest	2,018	8
FEMA Grant		233,471
Other income		1,924
Net gain on disposal of assets	332,126	6,379
	<u>445,924</u>	<u>622,657</u>
 NON-OPERATING EXPENSE:		
Interest expense	1,963	
	<u>1,963</u>	
 INCOME BEFORE CAPITAL CONTRIBUTIONS	1,386,741	771,943
 CAPITAL CONTRIBUTIONS	<u>2,052,505</u>	<u>1,877,206</u>
 CHANGE IN NET ASSETS	<u>3,439,246</u>	<u>2,649,149</u>
 TOTAL NET ASSETS, JANUARY 1 – AS PREVIOUSLY REPORTED	74,506,751	72,324,558
 PRIOR PERIOD ADJUSTMENT		<u>(466,956)</u>
 TOTAL NET ASSETS, JANUARY 1 – AS RESTATED	<u>74,506,751</u>	<u>71,857,602</u>
 TOTAL NET ASSETS, DECEMBER 31	<u>\$77,945,997</u>	<u>\$74,506,751</u>

The accompanying notes are an integral part of this statement.

MUKILTEO WATER AND WASTEWATER DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

INCREASE (DECREASE) IN CASH

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 8,518,794	\$ 8,007,212
Cash paid to vendors	(3,488,536)	(3,585,282)
Cash paid to and for employees and commissioners	(2,483,541)	(2,552,354)
Net cash provided by operating activities	<u>2,546,717</u>	<u>1,869,576</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
FEMA Grant received	<u>263,851</u>	<u>127,644</u>
Net cash provided by non-capital financing activities	<u>263,851</u>	<u>127,644</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Expenditures for plant in service, construction, and preliminary surveys and investigations	(7,406,014)	(6,111,108)
Proceeds from sale of assets	375,000	8,892
Proceeds from issuance of debt	4,909,569	10,255,000
Principal paid on debt	(1,305,418)	(5,933,245)
Payment to escrow account to refund bonds, net of amount representing interest		(828,913)
Payment of discount and issue costs on issuance of debt		(136,312)
Interest paid on debt (net of amount capitalized)		80,193
Interest received on assessments	31,183	33,949
Capital contributions	1,175,595	414,471
Collections on ULID assessments	70,656	52,106
Collections on contract receivable	9,257	
Net cash used in capital financing activities	<u>(2,140,172)</u>	<u>(2,164,967)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	13,303,628	17,259,847
Purchase of investments	(14,081,185)	(17,643,368)
Interest received on investments (net of amount capitalized)	<u>108,730</u>	<u>386,562</u>
Net cash provided by (used in) investing activities	<u>(668,827)</u>	<u>3,041</u>
NET INCREASE (DECREASE) IN CASH	1,569	(164,706)
CASH AT JANUARY 1	<u>154,013</u>	<u>318,719</u>
CASH AT DECEMBER 31	<u>\$ 155,582</u>	<u>\$ 154,013</u>
CASH IS COMPOSED OF THE FOLLOWING AT DECEMBER 31:		
Cash – current assets	\$ 155,582	\$ 152,138
Cash – restricted current assets	<u> </u>	<u>1,875</u>
	<u>\$ 155,582</u>	<u>\$ 154,013</u>

The accompanying notes are an integral part of this statement.

(continued)

MUKILTEO WATER AND WASTEWATER DISTRICT

STATEMENT OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 942,780	\$ 149,286
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,014,369	1,832,174
(Increase) decrease in assets:		
Accounts receivable	(282,125)	(193,972)
Inventory	(13,265)	(5,094)
Prepaid expenses	(1,697)	(5,418)
Increase (decrease) in liabilities:		
Accounts payable and deposits	(63,680)	55,234
Accrued salaries and compensated absences	(49,665)	35,442
Other income		1,924
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,546,717</u>	<u>\$ 1,869,576</u>
 SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Utility plant donations received	\$ 593,591	\$ 1,468,798
Grant receivable – FEMA (non-capital)		105,827
Grant receivable – FEMA (capital)	162,594	(6,063)
Contract assessment	120,725	

(concluded)

The accompanying notes are an integral part of this statement.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

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

Basis of presentation and accounting:

These financial statements are prepared utilizing the flow of economic resources measurement focus and full accrual basis of accounting. The District applies all of the Financial Accounting Standards Board (FASB) codification not in conflict with standards issued by the Governmental Accounting Standards Board. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Investments:

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

Accounts receivable:

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

Inventory:

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

Capital assets:

Capital assets are stated at cost and include the capitalized portion of District employees' wages. For water and wastewater systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. In 2009 the capitalization threshold increased from \$1,000 to \$5,000. 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. Provision is made for depreciation of capital assets using the straight-line method over the estimated useful lives of the assets which generally are 5 to 100 years.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2009 AND 2008

NOTE 1: Description of Business, Nature of Operations and Significant Accounting Policies (continued)

Interest capitalization:

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

Total interest and amortization cost incurred for the years ended December 31, 2009 and 2008 was \$509,959 and \$412,447, respectively. Interest capitalized to Construction Work in Progress was \$478,570 and \$369,592, respectively, net of interest income of \$29,426 and \$42,855, respectively.

Accrued compensated absences:

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

Long-term debt:

Long-term debt is reported net of discounts, issue costs and losses on refunding.

Discounts and issue costs on long-term debt are amortized by the interest method over the period the related debt is outstanding. Losses on refunding of long-term debt are amortized by the interest method over the life of the new debt issued or the debt refunded, whichever is shorter.

Net assets:

Net assets are classified in the following three components: 1) Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. 2) Restricted - This component of net assets consists of restrictions placed on net asset use by external creditors (such as through debt covenants), grantors, or contributors. 3) Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2009 AND 2008

NOTE 1: Description of Business, Nature of Operations and Significant Accounting Policies (continued)

Revenues and expenses:

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

Capital contributions:

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

Fair value of financial instruments:

The carrying amounts of financial instruments included under the captions of current assets and current liabilities in the accompanying balance sheet, excluding investments, the current portion of assessments receivable and the current maturities of long-term debt, approximate fair value as of December 31, 2009 and 2008 due to the relatively short maturity of these instruments.

The valuation of investments is disclosed above.

It was not practicable to estimate the fair value of long-term debt because there is no published listing of current market prices or related market interest rates for these instruments. Terms of long-term debt are disclosed in Notes 6 and 7. Interest rates on assessments are generally determined based on the related interest rate on the debt utilized to finance construction of the assets for which the property owners were assessed. As such, it was not practicable to estimate the fair value of assessments for the same reasons it was not practicable to estimate the fair value of long-term debt. The assessments are due in annual installments through the year 2023 and bear interest at 4.98% to 6.38%.

The carrying amount of the note receivable included under the caption of non current unrestricted assets in the accompanying balance sheet approximated fair value as of December 31, 2009 and bears interest at 6%.

Use of estimates in financial statement preparation:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 2: Deposits and Investments

Deposits:

The District's deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

Investments:

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

	<u>FAIR VALUE</u>	
	<u>2009</u>	<u>2008</u>
State Treasurer's Investment Pool	<u>\$16,248,544</u>	<u>\$15,470,987</u>

Credit risk:

As of December 31, 2009 and 2008, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk:

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

NOTE 3: Restricted Assets

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

	<u>REVENUE AND REFUNDING BOND FUNDS</u>	<u>REVENUE BOND AND DOE LOAN RESERVE FUNDS</u>	<u>CONSTRUCTION FUNDS</u>	<u>TOTAL</u>
<u>2009:</u>				
CURRENT RESTRICTED ASSETS:				
Investments	\$ 459,975	\$232,507	\$3,196,751	\$3,889,233
Interest receivable	17,736			17,736
Assessments receivable – current	<u>43,606</u>			<u>43,606</u>
	521,317	<u>232,507</u>	<u>3,196,751</u>	<u>3,950,575</u>
NONCURRENT - RESTRICTED ASSETS:				
Assessments receivable – long-term	<u>508,577</u>			<u>508,577</u>
	<u>\$1,029,894</u>	<u>\$232,507</u>	<u>\$3,196,751</u>	<u>\$4,459,152</u>

MUKILTEO WATER AND WASTEWATER DISTRICT

**NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008**

NOTE 3: Restricted Assets (continued)

	REVENUE AND REFUNDING BOND FUNDS	REVENUE BOND AND DOE LOAN RESERVE FUNDS	CONSTRUCTION FUNDS	TOTAL
<u>2008:</u>				
CURRENT RESTRICTED ASSETS:				
Cash			\$ 1,875	\$ 1,875
Investments	\$ 428,946	\$76,277	3,521,561	4,026,784
Interest receivable	20,452	96	5,683	26,231
Assessments receivable – current	47,847			47,847
	<u>497,245</u>	<u>76,373</u>	<u>3,529,119</u>	<u>4,102,737</u>
NONCURRENT - RESTRICTED ASSETS:				
Assessments receivable – long-term	574,992			574,992
	<u>\$1,072,237</u>	<u>\$76,373</u>	<u>\$3,529,119</u>	<u>\$4,677,729</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 interest and the reserve accounts are to provide security for debt holders.

The required reserve at December 31, 2009 and 2008 was \$186,491 and \$39,520, respectively. The debt service and reserve accounts are fully funded.

NOTE 4: Capital Assets

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

	BALANCE BEGINNING OF YEAR	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE END OF YEAR
<u>2009:</u>					
Plant in service:					
Land and land rights (1)	\$ 947,189		\$ (4,000)	\$ 16,586	\$ 959,775
Reservoirs	6,061,505				6,061,505
Water system	24,553,670	\$ 412,382	(5,356)		24,960,696
Wastewater system	30,025,916	176,650		23,062,573	53,265,139
Treatment plant and capacity	16,743,007			2,160,861	18,903,868
Office building and improvements	5,208,402	5,694	(137,841)		5,076,255
Equipment and other	2,910,109	416,221	(228,598)	142,065	3,239,797
	<u>86,449,798</u>	<u>1,010,947</u>	<u>(375,795)</u>	<u>25,382,085</u>	<u>112,467,035</u>

NOTES TO FINANCIAL STATEMENTS (continued)
 DECEMBER 31, 2009 AND 2008

NOTE 4: Capital Assets (continued)

	BALANCE BEGINNING OF YEAR	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE END OF YEAR
<u>2009: (continued)</u>					
Accumulated depreciation:					
Reservoirs	\$ 847,311	\$ 65,958			\$ 913,269
Water system	5,324,036	337,496	\$ (5,356)		5,656,176
Wastewater system	11,409,621	759,491			12,169,112
Treatment plant and Capacity	6,781,383	474,739			7,256,122
Office building and Improvements	994,767	130,331	(98,968)		1,026,130
Equipment and other	1,824,359	246,354	(228,597)		1,842,116
	<u>27,181,477</u>	<u>2,014,369</u>	<u>(332,921)</u>		<u>28,862,925</u>
Net plant in service	59,268,321	(1,003,422)	(42,874)	\$ 25,382,085	83,604,110
Construction in progress (1)	<u>20,312,437</u>	<u>7,138,176</u>	<u>(14,486)</u>	<u>(25,382,085)</u>	<u>2,054,042</u>
	<u>\$79,580,758</u>	<u>\$ 6,134,754</u>	<u>\$ (57,360)</u>	<u>\$ 0</u>	<u>\$85,658,152</u>

(1) Not depreciated

2008:

Plant in service:					
Land and land rights (1)	\$ 947,189				\$ 947,189
Reservoirs	6,061,505				6,061,505
Water system	22,681,972	\$ 1,161,327		\$ 710,371	24,553,670
Wastewater system	27,529,208	368,632		2,128,076	30,025,916
Treatment plant and capacity	16,724,871	10,166		7,970	16,743,007
Office building and improvements	5,133,212			75,190	5,208,402
Equipment and other	2,559,190	224,686	\$(82,050)	208,283	2,910,109
	<u>81,637,147</u>	<u>1,764,811</u>	<u>(82,050)</u>	<u>3,129,890</u>	<u>86,449,798</u>
Accumulated depreciation:					
Reservoirs	781,353	65,958			847,311
Water system	4,999,830	324,206			5,324,036
Wastewater system	10,783,894	625,727			11,409,621
Treatment plant and Capacity	6,313,120	468,263			6,781,383
Office building and Improvements	865,984	128,783			994,767
Equipment and other	1,684,659	219,237	(79,537)		1,824,359
	<u>25,428,840</u>	<u>1,832,174</u>	<u>(79,537)</u>		<u>27,181,477</u>
Net plant in service	56,208,307	(67,363)	(2,513)	3,129,890	59,268,321
Construction in progress (1)	<u>18,602,174</u>	<u>4,840,153</u>		<u>(3,129,890)</u>	<u>20,312,437</u>
	<u>\$74,810,481</u>	<u>\$ 4,772,790</u>	<u>\$ (2,513)</u>	<u>\$ 0</u>	<u>\$79,580,758</u>

(1) Not depreciated

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 5: Short-term Debt payable from Restricted Assets

On November 1, 2007, the District issued \$5,025,000 of Bond Anticipation Notes to provide interim funding for the Big Gulch project. The notes were due in their entirety on November 1, 2008, with interest payable semi-annually at 3.68 annual percentage rate.

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

	BALANCE, BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE, END OF YEAR
<u>2008:</u>				
Bond anticipation notes	<u>\$5,025,000</u>	<u>\$0</u>	<u>\$(5,025,000)</u>	<u>\$0</u>

NOTE 6: Long-term Debt Payable From Unrestricted Assets

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

	2009	2008
Public Works Trust Fund Loans:		
\$257,975 loan: payable \$13,578 annually through the year 2011, plus interest at 1.0 annual percentage rate.	\$ 27,155	\$ 40,733
\$811,640 loan: payable \$42,718 annually through the year 2018, plus interest at 1.0 annual percentage rate.	384,461	427,179
\$7,000,000 authorized, \$6,650,000 drawn to December 31, 2009. Based on the draws to December 31, 2009, payable \$350,000 annually through the year 2026, plus interest at 0.5 annual percentage rate.	5,950,000	6,300,000
\$1,000,000 loan: payable \$53,362 annually through the year 2027, plus interest at 0.5 annual percentage rate.	960,526	750,000
\$1,000,000 loan: payable \$53,362 annually through the year 2027, plus interest at 0.5 annual percentage rate.	960,526	750,000
\$8,000,000 authorized, \$5,600,000 drawn to December 31, 2009. Based on the draws to December 31, 2009, payable \$294,737 annually through the year 2028, plus interest at 0.5 annual percentage rate.	5,600,000	1,600,000

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 6: Long-term Debt Payable From Unrestricted Assets (continued)

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

	<u>2009</u>	<u>2008</u>
Washington State Department of Ecology Loans:		
\$511,732 loan: payable \$19,760 semi-annually through 2017, including interest at 1.5 annual percentage rate.	\$ 296,881	\$ 331,557
\$1,145,247 loan: payable \$33,783 semi-annually through 2028, including interest at 1.5 annual percentage rate	1,087,537	735,678
Drinking Water State Revolving Fund Loan:		
\$622,968 loan: payable \$32,788 annually through the year 2024, plus interest at 1.5 annual percentage rate.	<u>491,817</u>	<u>524,605</u>
	<u>15,758,903</u>	<u>11,459,752</u>
Less current maturities	<u>(927,138)</u>	<u>(552,707)</u>
	<u>\$14,831,765</u>	<u>\$10,907,045</u>

Long-term debt service requirements to maturity, payable by the District from unrestricted assets are as follows (based on draws received through December 31, 2009):

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 927,138	\$ 98,800	\$ 1,025,938
2011	928,445	93,224	1,021,669
2012	916,193	87,086	1,003,279
2013	917,539	81,063	998,602
2014	918,905	75,021	993,926
2015-2019	4,493,099	284,628	4,777,727
2020-2024	4,228,938	148,858	4,377,796
2025-2028	<u>2,428,646</u>	<u>30,148</u>	<u>2,458,794</u>
	<u>\$15,758,903</u>	<u>\$898,828</u>	<u>\$16,657,731</u>

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 6: Long-term Debt Payable From Unrestricted Assets (continued)

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

	BALANCE, BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE, END OF YEAR	AMOUNTS DUE WITHIN ONE YEAR
<u>2009:</u>					
Public Works Trust Fund Loan	\$ 40,733		\$ (13,578)	\$ 27,155	\$ 13,578
Public Works Trust Fund Loan	427,179		(42,718)	384,461	42,718
Public Works Trust Fund Loan	6,300,000		(350,000)	5,950,000	350,000
Public Works Trust Fund Loan	750,000	\$ 250,000	(39,474)	960,526	53,362
Public Works Trust Fund Loan	750,000	250,000	(39,474)	960,526	53,362
Public Works Trust Fund Loan	1,600,000	4,000,000		5,600,000	294,737
Washington State Department of Ecology Loan	331,557		(34,676)	296,881	35,198
Washington State Department of Ecology Loan	735,678	409,569	(57,710)	1,087,537	51,395
Drinking Water State Revolving Fund Loan	524,605		(32,788)	491,817	32,788
	<u>\$11,459,752</u>	<u>\$4,909,569</u>	<u>\$(610,418)</u>	<u>\$15,758,903</u>	<u>\$927,138</u>
<u>2008:</u>					
Public Works Trust Fund Loan	\$ 54,311		\$ (13,578)	\$ 40,733	\$ 13,578
Public Works Trust Fund Loan	469,897		(42,718)	427,179	42,718
Public Works Trust Fund Loan	6,650,000		(350,000)	6,300,000	350,000
Public Works Trust Fund Loan	750,000			750,000	39,474
Public Works Trust Fund Loan	750,000			750,000	39,473
Public Works Trust Fund Loan		\$1,600,000		1,600,000	
Washington State Department of Ecology Loan	365,719		(34,162)	331,557	34,676
Washington State Department of Ecology Loan	735,678			735,678	
Drinking Water State Revolving Fund Loan	557,392		(32,787)	524,605	32,788
	<u>\$10,332,997</u>	<u>\$1,600,000</u>	<u>\$(473,245)</u>	<u>\$11,459,752</u>	<u>\$552,707</u>

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 7: 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>2009</u>	<u>2008</u>
Revenue bonds:		
\$2,315,000 issued March 1, 2005 for refunding, due serially through the year 2011, with interest payable semi-annually at 2.95 to 3.15 annual percentage rates.	\$ 805,000	\$1,195,000
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2028 with interest payable semi-annually of 3.0 to 4.5 annual percentage rates.	<u>8,350,000</u>	<u>8,655,000</u>
	9,155,000	9,850,000
Less current maturities	(730,000)	(695,000)
Less unamortized discounts, premiums, issue costs and refunding loss	<u>(177,532)</u>	<u>(213,655)</u>
	<u>\$8,247,468</u>	<u>\$8,941,345</u>

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

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$ 730,000	\$ 356,941	\$ 1,086,941
2011	750,000	333,770	1,083,770
2012	350,000	316,263	666,263
2013	360,000	304,888	664,888
2014	375,000	292,287	667,287
2015-2019	2,020,000	1,245,587	3,265,587
2020-2024	2,370,000	808,475	3,178,475
2025-2028	<u>2,200,000</u>	<u>252,675</u>	<u>2,452,675</u>
	<u>\$9,155,000</u>	<u>\$3,910,886</u>	<u>\$13,065,886</u>

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 7: Long-term Debt Payable From Restricted Assets (continued)

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

	<u>BALANCE, BEGINNING OF YEAR</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE, END OF YEAR</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
<u>2009:</u>					
2005 Revenue bonds	\$1,195,000		\$(390,000)	\$ 805,000	\$395,000
2008 Revenue bonds	<u>8,655,000</u>		<u>(305,000)</u>	<u>8,350,000</u>	<u>335,000</u>
	<u>\$9,850,000</u>	<u>\$ 0</u>	<u>\$(695,000)</u>	<u>\$9,155,000</u>	<u>\$730,000</u>
<u>2008:</u>					
2003 Revenue bonds	\$ 840,000		\$ (840,000)		
2005 Revenue bonds	1,575,000		(380,000)	\$1,195,000	\$390,000
2008 Revenue bonds	<u>8,655,000</u>	<u>\$8,655,000</u>	<u>_____</u>	<u>8,655,000</u>	<u>305,000</u>
	<u>\$2,415,000</u>	<u>\$8,655,000</u>	<u>\$(1,220,000)</u>	<u>\$9,850,000</u>	<u>\$695,000</u>

NOTE 8: Refunded Bonds

On September 10, 2008, the District issued \$8,655,000 of Water and Sewer Revenue and Refunding Bonds. Of the \$8,655,000 issued, \$500,000 of the bonds with interest rates of 3.0% to 4.3% and District cash were used to advance refund \$785,000 of outstanding 2003 bonds with interest rates of 3.2% to 5.0%. The cash and the net proceeds of the refunding portion of the bonds totaling \$835,518, including \$6,605 representing accrued interest to the refunding date, were used to purchase U.S. Government securities and provide the beginning escrow cash balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds outstanding in this fund at December 31, 2009 is \$730,000.

Although the advance refunding resulted in an accounting loss of \$60,180 (which will be amortized over the life of the refunded bonds), the District, in effect reduced its aggregate debt service payments by \$77,634 through October 2023. The refunding resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$22,438.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 9: Commitments

Commitments:

The District is obligated to the city of Everett to pay for a portion of certain city projects. As of December 31, 2009, the District's share is estimated to be as follows:

2010	\$ 225,200
2011	346,000
2012	802,000
2013	785,200
2014	760,000
2015-2019	<u>524,800</u>
	<u>\$3,443,200</u>

NOTE 10: Pension Plan

Substantially all 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 Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Plan description:

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2009 AND 2008

NOTE 10: Pension Plan (continued)

Plan description (continued):

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. (The AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service with an allowance of two percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and a cost of living allowance is granted (based on the Consumer Price Index), capped at three percent annually.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 10: Pension Plan (continued)

Plan description (continued):

PERS Plan 3 had a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (The AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with ten years of service. PERS Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost of living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,192 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and beneficiaries receiving benefits	73,122
Terminated plan members entitled to but not yet receiving benefits	27,267
Active plan members vested	105,212
Active plan members nonvested	<u>56,456</u>
Total	<u>262,057</u>

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
 DECEMBER 31, 2009 AND 2008

NOTE 10: Pension Plan (continued)

Funding policy:

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program. The methods used to determine the contribution requirements are established under state statute in accordance with Chapter 41.40 RCW and Chapter 41.45 RCW.

Contributions:

The District does not have any employees covered under Plan 3. The required contribution rates expressed as a percentage of covered payroll as of December 31, were:

	2009		2008	
	PERS PLAN 1	PERS PLAN 2	PERS PLAN 1	PERS PLAN 2
Employer*	5.31%	5.31%	8.31%	8.31%
Employee	6.00%	3.90%	6.00%	5.45%

*The employer rates include the employer administrative expense fee set at .16% at December 31, 2009 and 2008.

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

	REQUIRED CONTRIBUTIONS	
	PERS PLAN 1	PERS PLAN 2
2009	\$8,612	\$105,041
2008	8,894	114,498
2007	6,370	84,594

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued) DECEMBER 31, 2009 AND 2008

NOTE 11: Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are with Great West Life & Annuity Insurance Company, International City/County Managers Association Retirement Trust or the State of Washington Department of Retirement Systems deferred compensation program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The District matches employee contributions to the plan up to 2.5% of base salary. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. District contributions to the plan were \$22,645 and \$25,190 for the year ended December 31, 2009 and 2008, respectively. Employee contributions to the plan were \$75,633 and \$82,374 for the year ended December 31, 2009 and 2008, respectively. Plan provisions and amendments are authorized by the District's board of commissioners.

NOTE 12: Risk Management

The District is a member of the Enduris. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contacting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contact for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2009, there are 444 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

NOTE 12: Risk Management (continued)

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a “per occurrence”:

\$500,000 deductible on liability loss (9/1/08-12/31/08) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$499,000 on liability loss;

\$750,000 deductible on liability loss (1/1/09-8/31/09) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$749,000 on liability loss;

\$100,000 deductible on property loss (9/1/08-6/30/09) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$99,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss;

\$250,000 deductible on property loss (7/1/09-8/31/09) – the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

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

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

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

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

NOTE 13: Major Supplier

The District purchases all water from the city of Everett (the city). The city also provides treatment for approximately 27% of the District’s wastewater.

MUKILTEO WATER AND WASTEWATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2009 AND 2008

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:

2010	\$73,812
2011	77,432
2012	81,231
2013	78,568

NOTE 15: Annexation by the City of Everett

The city of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for at least ten years. Subsequent to December 31, 2009, the city indicated that it would assume a portion of the District in 2010. The area to be assumed contains 17.3% and 17.6% of the Districts water and wastewater customers, respectively. No estimate has been made of the amount of loss the District will incur as a result of the assumption.

Although the city has not indicated it will exercise these rights for any additional annexations, it is reasonably possible that assumptions of assets will occur. As of December 31, 2009, 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

Subsequent to year end the District entered into contract negotiations with an alternative wholesale water provider for long-term supply.

Management has evaluated subsequent events through July 14, 2010, the date on which the financial statements were available to be issued.

NOTE 17: Prior Period Adjustment

The District incorrectly computed depreciation expense in various years resulting in under recorded depreciation of \$466,956 through December 31, 2007 and over recorded depreciation of \$2,606 in 2008. Net assets as of January 1, 2008 have been reduced by \$466,956 to record depreciation occurring prior to 2008 and the 2008 financial statements have been restated to reduce depreciation expense by \$2,606 and increase accumulated depreciation by \$464,350.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

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

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

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

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