



MUKILTEO WATER AND WASTEWATER DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2022 AND 2021



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**MUKILTEO WATER AND WASTEWATER DISTRICT
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YEARS ENDED DECEMBER 31, 2022 AND 2021**

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Commissioners
Mukilteo Water and Wastewater District
Mukilteo, Washington

We have reviewed the accompanying financial statements of Mukilteo Water and Wastewater District (the District), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of District management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Mukilteo Water and Wastewater District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022 the District adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required 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. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Supplementary Information

The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our reviews of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.



CliftonLarsonAllen LLP

Bellevue, Washington
May 30, 2023

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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 excellent water and wastewater services, and fiscally responsible management of resources of our ratepayers in an environmentally responsive 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, 2022 and 2021 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, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2022</u>	<u>2021</u>	[*] <u>2020</u>
Capital Assets	\$ 96,137,028	\$ 94,935,932	\$ 95,835,232
Other Assets	27,077,979	28,455,957	25,771,886
Total Assets	<u>123,215,007</u>	<u>123,391,889</u>	<u>121,607,118</u>
Deferred Outflows of Resources	<u>778,780</u>	<u>360,084</u>	<u>430,420</u>
Long-Term Liabilities	11,463,402	12,175,946	13,436,316
Other Liabilities	3,841,509	4,073,219	4,092,360
Total Liabilities	<u>15,304,911</u>	<u>16,249,165</u>	<u>17,528,676</u>
Deferred Inflows of Resources	<u>1,564,958</u>	<u>2,841,934</u>	<u>225,065</u>
Net Investment in Capital Assets	83,255,628	81,052,750	81,197,873
Restricted Amounts	2,523,883	3,658,025	1,830,853
Unrestricted Amounts	21,344,407	19,950,099	21,255,071
Total Net Position	<u>\$ 107,123,918</u>	<u>\$ 104,660,874</u>	<u>\$ 104,283,797</u>

* The 2020 financial statements have not been restated to reflect the change in accounting for leases.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
			*
Wastewater Service Revenue	\$ 8,793,932	\$ 8,413,983	\$ 8,113,680
Water Service Revenue	4,478,373	4,417,869	4,130,473
Other Wastewater Operating Revenues	123,287	101,153	191,242
Other Water Operating Revenues	275,383	250,391	174,574
Total Operating Revenues	<u>13,670,975</u>	<u>13,183,396</u>	<u>12,609,969</u>
Wastewater Operating Expenses	2,570,268	2,638,256	2,475,990
Water Operating Expenses	2,094,527	1,927,772	1,859,429
General and Administrative Expenses, Wastewater	1,928,488	1,395,358	1,511,816
General and Administrative Expenses, Water	1,498,949	1,058,539	1,257,497
Depreciation, Wastewater	2,742,886	2,571,039	2,575,126
Depreciation, Water	748,715	813,928	812,885
Total Operating Expenses	<u>11,583,833</u>	<u>10,404,892</u>	<u>10,492,743</u>
Operating Income	2,087,142	2,778,504	2,117,226
Nonoperating Revenue (Expense):			
Interest	296,132	38,928	172,404
Loss on Disposal of Assets	(32,115)	(2,566,984)	(188,502)
Interest and Amortization	(248,860)	(263,019)	(273,982)
Income (Loss) Before Capital Contributions	<u>2,102,299</u>	<u>(12,571)</u>	<u>1,827,146</u>
Capital Contributions	360,745	389,648	1,769,149
Increase in Net Position	<u>2,463,044</u>	<u>377,077</u>	<u>3,596,295</u>
Net Position, January 1	<u>104,660,874</u>	<u>104,283,797</u>	<u>100,687,502</u>
Net Position, December 31	<u>\$ 107,123,918</u>	<u>\$ 104,660,874</u>	<u>\$ 104,283,797</u>

* The 2020 financial statements have not been restated to reflect the change in accounting for leases.

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 2022 due to increases in construction activity, donated systems, and asset purchases. Capital assets decreased in 2021 primarily due to the removal of old assets below the District's new capitalization threshold of \$10,000.

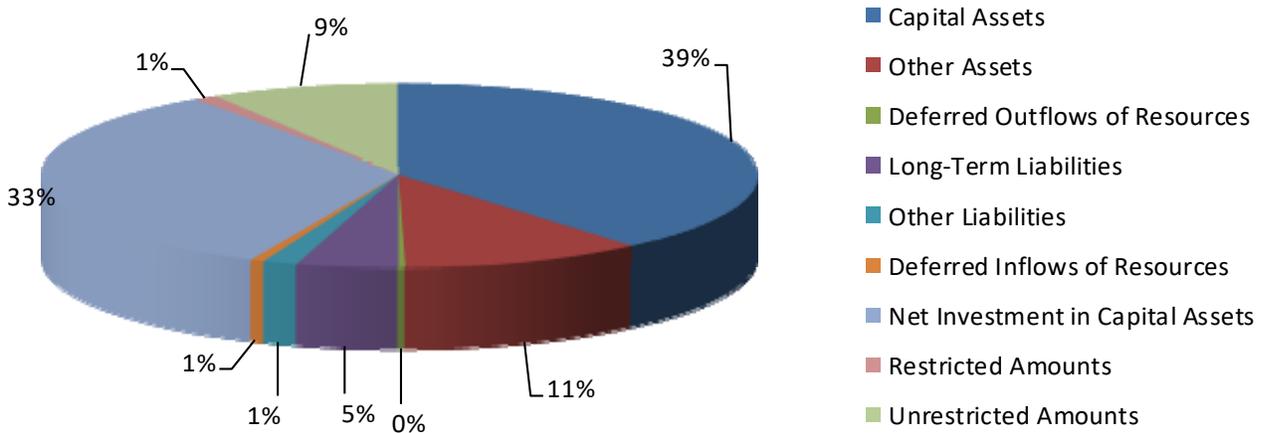
The District is located in Snohomish County, Washington.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

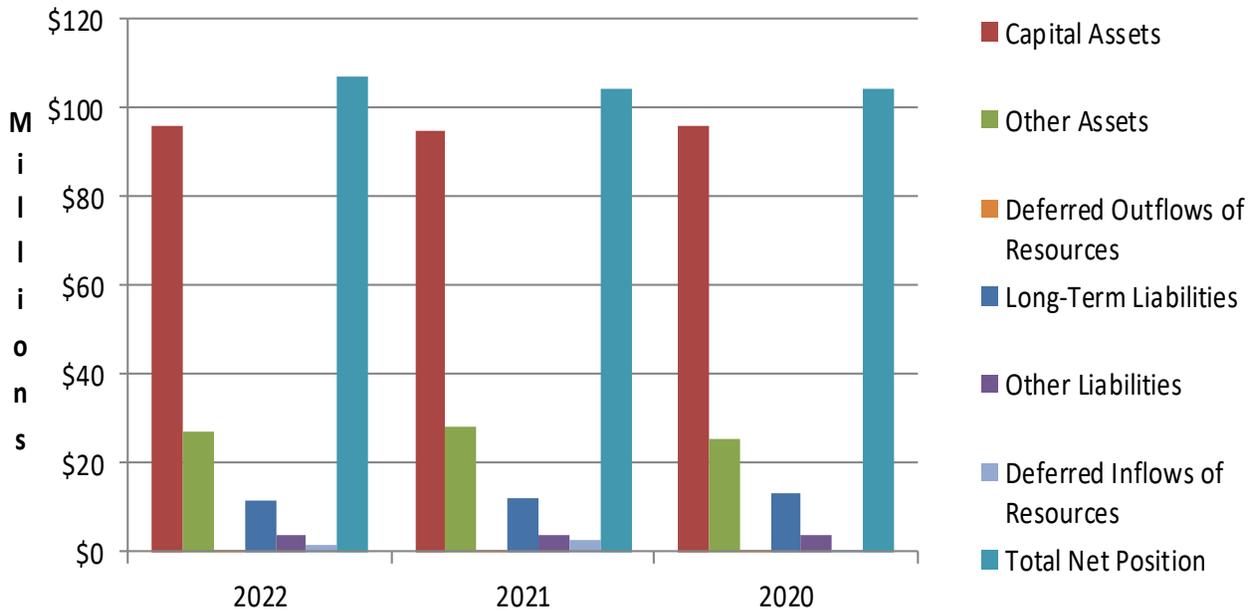
FINANCIAL POSITION (CONTINUED)

The following charts indicate the components of financial position:

2022 STATEMENT OF NET POSITION



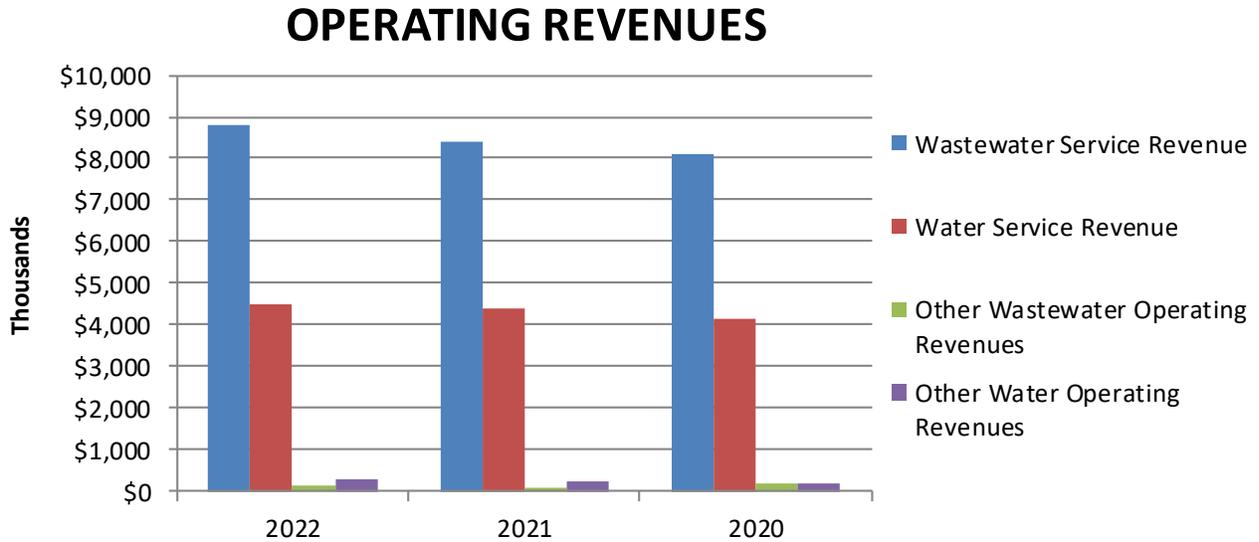
COMPARATIVE STATEMENT OF NET POSITION



**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

RESULTS OF OPERATIONS

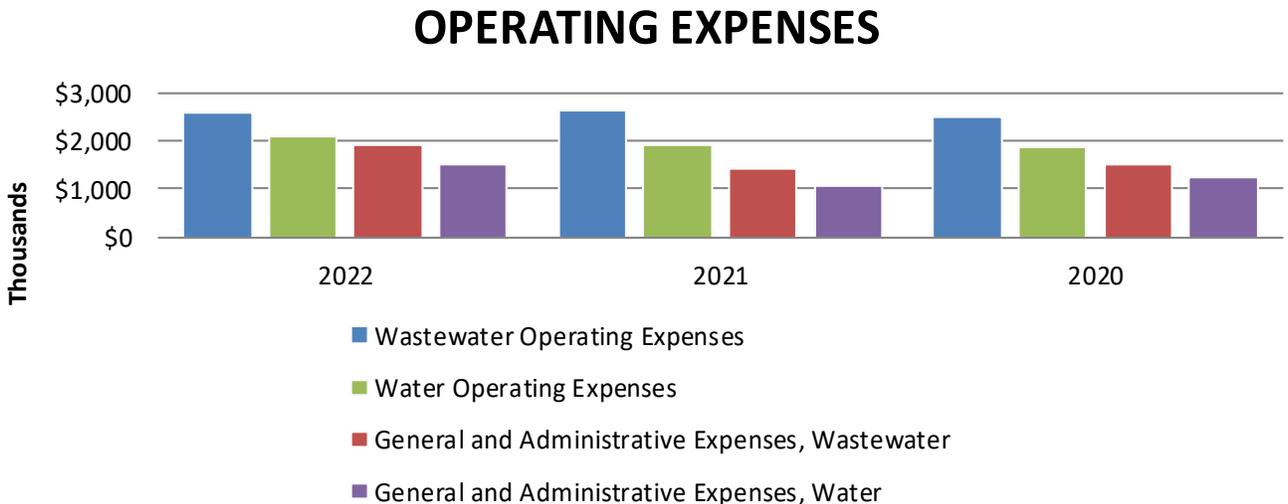
Operating revenues are received primarily from water and wastewater service charges. The following chart indicates operating revenue over the last three years.



Water revenue increased in 2022 and 2021 due to a combination of increased consumption as the impacts of COVID-19 diminished and increased water rates.

The increase in wastewater revenues in 2022 and 2021 was due to increased water consumption for commercial accounts and 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, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

RESULTS OF OPERATIONS (CONTINUED)

Wastewater operating expenses decreased in 2022 primarily due to extra expenses incurred in 2021 for telemetry upgrades and supplies and equipment for the new administrative building at the treatment plant. Wastewater operating expenses increased in 2021 primarily due to rate increases from the City of Everett for wastewater treatment costs. Water operating expenses increased in 2022 primarily due to rate increases on purchased water. Water operating expenses increased in 2021 due to increased consumption as the impacts of COVID-19 decreased and rate increases.

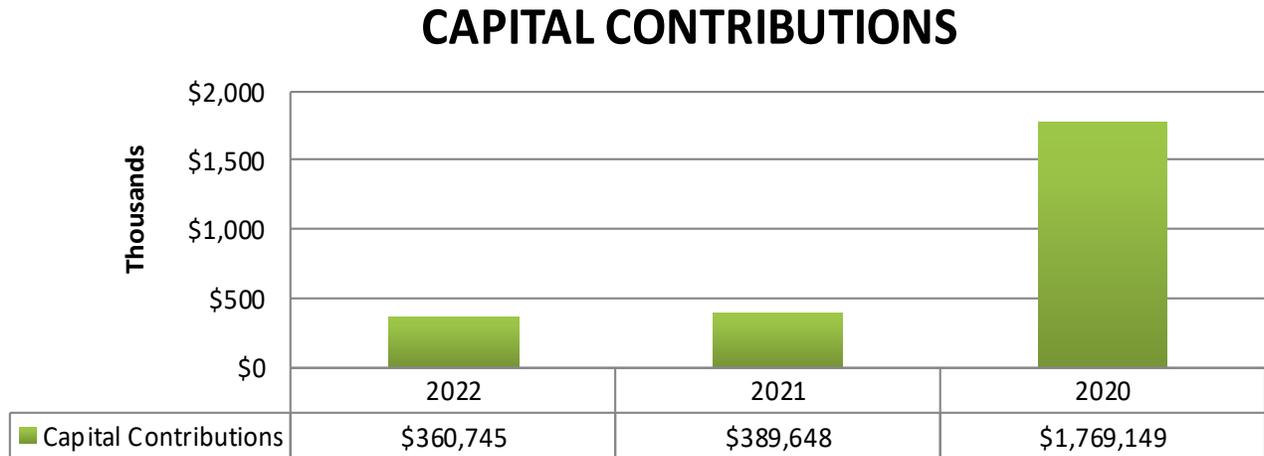
Wastewater and water general and administrative expenses increased in 2022 and decreased in 2021 primarily due to changes in pension expense due to differences between expected and actual earnings on pension plan investments.

The District operated at a profit in 2022, 2021, and 2020. 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, 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 \$230,514, \$99,447, and \$537,060 for the years ended December 31, 2022, 2021, and 2020, respectively. The large contributions in 2020 were primarily from the Washington State Ferry Terminal project which included approximately \$525,000 in donated assets and \$625,000 in connection charges.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2022 due to increases in construction activity, donated systems, and asset purchases. Capital assets decreased in 2021 primarily due to the removal of old assets below the District's new capitalization threshold of \$10,000.

Significant capital asset additions included the following:

<u>2022</u>		<u>2021</u>	
Old Town SR525 Crossing WSI 2022	\$ 1,769,857	Old Town SR525 Crossing WSI 2022	\$ 96,841
Old Town PH 2 22-01	73,206	8th/9th/10th St Water Main	888,217
LS 5 Replacement	768,689	LS 9 Replacement	1,030,869
LS 8 Force Main Replacement	132,022	LS 5 Force Main Replacement	772,248
CIPP - 2022	348,706	LS 5 Replacement	946,796
LS 8 Upgrade	155,743	WWTF Lab Bldg Replacement	796,414
WWTF Dewatering Upgrade	1,044,197	WWTF Dewatering Upgrade	172,637
Donated Systems	230,514	Lateral Launcher System	85,334
		WWTF Misc. SCADA Upgrades	72,383
		Donated Systems	99,447

* LS stands for Lift Station and WWTF stands for Wastewater Treatment Facility

The decrease in long-term liabilities in 2022 was due to principal payments made by the District in excess of new borrowings. The decrease in long-term liabilities in 2021 was due to principal payments made by the District in excess of new borrowings and decreases in pension liabilities primarily due to differences between projected and actual earning on pension plan investments in the underlying plans.

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

As of December 31, 2022, the District has \$17,999,752 of cash and investments set aside in capital accounts of which \$181,638 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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 located within the City of Everett's Urban Growth Area (UGA) that have been annexed for over ten years. See Note 14 in the financial statements for more details.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

ASSETS	2022	2021
CURRENT ASSETS		
Unrestricted:		
Cash	\$ 319,917	\$ 2,238,929
Investments	21,148,833	19,477,221
Accounts Receivable	1,473,749	1,474,670
Leases Receivable	126,246	120,237
Contract Receivable - Current Portion	5,843	5,843
Interest Receivable	5,352	1,131
Inventory	337,641	293,313
Prepaid Expenses	289,695	216,517
Total Unrestricted	23,707,276	23,827,861
Restricted:		
Cash	48,605	37,767
Investments	1,807,128	1,840,931
Interest Receivable	3,228	3,865
Assessments Receivable - Current Portion	36,422	25,193
Total Restricted	1,895,383	1,907,756
Total Current Assets	25,602,659	25,735,617
NONCURRENT ASSETS		
Unrestricted:		
Lease Receivable, Net of Current Portion	794,372	920,618
Contract Receivable, Less Current Portion	5,843	11,686
Total Unrestricted	800,215	932,304
Restricted:		
Assessments Receivable, Less Current Portion	-	25,193
Net Pension Asset	675,105	1,762,843
Total Restricted	675,105	1,788,036
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,679,825	1,679,825
Construction in Progress	1,587,301	1,420,866
Capital Assets Being Depreciated:		
Plant in Service	147,053,384	144,345,281
Less: Accumulated Depreciation	(54,183,482)	(52,510,040)
Net Capital Assets	96,137,028	94,935,932
Total Noncurrent Assets	97,612,348	97,656,272
Total Assets	123,215,007	123,391,889
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding of Debt	103,672	143,695
Deferred Outflows Related to Pensions	675,108	216,389
Total Deferred Outflows of Resources	778,780	360,084
Total Assets and Deferred Outflows of Resources	\$ 123,993,787	\$ 123,751,973

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

LIABILITIES	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,461,298	\$ 1,741,891
Accrued Salaries and Benefits	60,409	56,594
Compensated Absences	197,800	248,472
Customer Deposits	64,500	64,500
Developer Deposits	13,660	22,568
Retainage Payable	24,593	-
Accrued Interest	73,993	80,158
Long-Term Debt - Current Maturities	1,898,651	1,821,269
Total Payable from Unrestricted Assets	<u>3,794,904</u>	<u>4,035,452</u>
Payable from Restricted Assets:		
Accounts Payable	46,605	37,767
Total Payable from Restricted Assets	<u>46,605</u>	<u>37,767</u>
Total Current Liabilities	3,841,509	4,073,219
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Maturities	11,015,174	12,007,663
Compensated Absences	60,205	-
Net Pension Liability	388,023	168,283
Total Noncurrent Liabilities	<u>11,463,402</u>	<u>12,175,946</u>
Total Liabilities	15,304,911	16,249,165
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	701,761	1,831,425
Deferred Inflows Related to Leases	863,197	1,010,509
Total Deferred Inflows of Resources	<u>1,564,958</u>	<u>2,841,934</u>
Total Liabilities and Deferred Inflows of Resources	16,869,869	19,091,099
NET POSITION		
Net Investment in Capital Assets	83,255,628	81,052,750
Restricted for Debt Service	1,846,778	1,895,182
Restricted for Pensions	675,105	1,762,843
Restricted Other	2,000	-
Unrestricted	21,344,407	19,950,099
Total Net Position	<u>107,123,918</u>	<u>104,660,874</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 123,993,787</u>	<u>\$ 123,751,973</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, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2022	2021
OPERATING REVENUES		
Service Charges:		
Residential	\$ 6,669,702	\$ 6,525,667
Commercial and Multi-Family	6,602,603	6,306,185
Total Service Charges	13,272,305	12,831,852
Late Charges	101,267	40,711
Miscellaneous	297,403	310,833
Total Operating Revenues	13,670,975	13,183,396
OPERATING EXPENSES		
Purchased Water	1,484,275	1,403,948
Wastewater Treatment	1,982,536	2,021,570
Operation Expenses	1,197,984	1,140,510
General and Administrative	3,427,437	2,453,897
Depreciation	3,491,601	3,384,967
Total Operating Expenses	11,583,833	10,404,892
OPERATING INCOME	2,087,142	2,778,504
NONOPERATING REVENUES (EXPENSES)		
Investment Income	293,952	36,706
Interest on Assessments	1,878	1,871
Other Interest	302	351
Net Loss on Disposal of Assets	(32,115)	(2,566,984)
Interest and Amortization on Long-Term Debt	(248,860)	(263,019)
Total Nonoperating Revenue (Expense)	15,157	(2,791,075)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,102,299	(12,571)
Capital Contributions	360,745	389,648
CHANGE IN NET POSITION	2,463,044	377,077
Net Position - Beginning of Year	104,660,874	104,283,797
NET POSITION - END OF YEAR	\$ 107,123,918	\$ 104,660,874

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 13,516,312	\$ 12,887,959
Cash Paid to Vendors	(4,988,364)	(4,200,113)
Cash Paid to and for Employees and Commissioners	(3,609,395)	(3,383,890)
Net Cash Provided by Operating Activities	4,918,553	5,303,956
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions	130,231	290,201
Lease Payments Received	119,601	122,700
Interest Received on Assessments	2,515	1,130
Collections on ULID Assessments	13,964	7,571
Proceeds from Sale of Assets	-	20,844
Proceeds from Issuance of Debt	1,004,995	1,198,069
Principal Paid on Debt	(1,866,562)	(1,728,554)
Interest Paid on Long-Term Debt	(268,542)	(274,693)
Expenditures for Plant in Service, Construction, and Preliminary Surveys and Investigations	(4,620,996)	(5,182,917)
Net Cash Used by Capital Financing Activities	(5,484,794)	(5,545,649)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	12,582,934	13,459,560
Purchase of Investments	(14,243,009)	(12,503,413)
Collections on City of Everett Contract	5,843	5,842
Interest Received on Investments and City of Everett Contract	312,299	42,141
Net Cash Provided (Used) by Investing Activities	(1,341,933)	1,004,130
NET INCREASE (DECREASE) IN CASH	(1,908,174)	762,437
Cash - Beginning of Year	2,276,696	1,514,259
CASH - END OF YEAR	\$ 368,522	\$ 2,276,696
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash - Unrestricted	\$ 319,917	\$ 2,238,929
Cash - Restricted	48,605	37,767
Total	\$ 368,522	\$ 2,276,696

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,087,142	\$ 2,778,504
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,491,601	3,384,967
Lease Income	(146,676)	(153,046)
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	921	(80,808)
Inventory	(44,328)	4,836
Prepaid Expenses	(73,178)	(15,867)
Net Pension Asset	1,087,738	(1,762,843)
Deferred Outflows Related to Pensions	(458,719)	24,184
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Deposits	(129,372)	135,110
Accrued Salaries and Compensated Absences	13,348	(70,621)
Net Pension Liability	219,740	(546,820)
Deferred Inflows Related to Pensions	(1,129,664)	1,606,360
Net Cash Provided by Operating Activities	\$ 4,918,553	\$ 5,303,956

SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES

Utility Plant Donations Received	\$ 230,514	\$ 537,060
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See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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.

Adoption of New Accounting Standards:

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets for leases that previously were classified as operating leases and as inflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The District adopted the requirements of the guidance effective January 1, 2022, and has applied the provisions of this standard to the beginning of the earliest comparative period presented.

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. Treasury Notes.

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. Treasury Notes 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

Lease Receivable

The District is a lessor of space on District property for a cell towers. Lessor arrangements are included as lease receivables and deferred inflows of resources in the statement of net position. Lease receivables represent the District's claim to receive lease payments over the lease term, as specified in the contracts, in an exchange or exchange-like transaction. Lease receivables are recognized based on the present value of expected lease payments over the lease term reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term. Deferred inflows of resources related to leases are recognized based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The deferred inflows related to leases are recognized on using the straight-line method over the lease term.

Inventory

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

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 \$10,000, including 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 to 100 Years
Water System	5 to 100 Years
Wastewater System	5 to 100 Years
Treatment Plant and Capacity	10 to 100 Years
Office Building and Improvements	5 to 40 Years
Equipment and Other	2 to 25 Years

MUKILTEO WATER AND WASTEWATER DISTRICT
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NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension asset/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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability or as an addition to the net pension asset 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 leases and the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to leases are recognized on using the straight-line method over the lease term. 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

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 the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions, and assets restricted by external creditors (such as through debt covenants), grantors, contributors or others, and deferred outflows of resources related to those assets, reduced by related liabilities, and deferred inflows of resources.

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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

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

Cash on hand at December 31, 2022 and 2021 was \$1,000 and \$1,000, respectively. The District's bank balances as of December 31, 2022 and 2021 were \$367,522 and \$2,275,696, respectively.

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 Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. 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:

	<u>2022</u>	<u>2021</u>
Money Market Accounts	\$ 1,792,873	\$ 1,769,272
Certificates of Deposit	3,534,184	3,524,065
Local Government Investment Pool	16,651,169	16,024,815
U.S. Treasury Notes	977,735	-
Total	<u>\$ 22,955,961</u>	<u>\$ 21,318,152</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at Amortized Cost

	<u>2022</u>	<u>2021</u>
Money Market Accounts	\$ 1,792,873	\$ 1,769,272
Certificates of Deposit	3,534,184	3,524,065
Local Government Investment Pool	16,651,169	16,024,815
Total	<u>\$ 21,978,226</u>	<u>\$ 21,318,152</u>

Investments in Local Government Investment Pool

The District is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions 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.

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2022				
U.S. Treasury Notes	<u>\$ -</u>	<u>\$ 977,735</u>	<u>\$ -</u>	<u>\$ 977,735</u>
2021				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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. treasury notes as of December 31, 2022 and 2021 was .21 years and .09 years, respectively.

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.

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%

*Calculated at Time of Purchase

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	<u>2022</u>	<u>2021</u>
Commencement Bank	\$ 2,001,951	\$ 1,993,570
East West Bank	1,532,233	1,530,495

NOTE 3 LEASES RECEIVABLE

The District is a lessor of space on District property for a cell towers. The District records leases receivable and deferred inflows of resources based on the present value of expected receipts over the term of the leases. The expected receipts are discounted using an interest rate based on the 10 year treasury bond plus 2%. The District recognized lease revenue of \$147,312 and \$149,673, during the years ended December 31, 2022 and 2021, respectively, and interest income related to the leases of \$27,207 and \$29,507 during the years ended December 31, 2022 and 2021, respectively.

Future lease payments to be received under the leases are as follows:

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 126,246	\$ 23,597	\$ 149,843
2024	136,932	19,697	156,629
2025	148,260	15,473	163,733
2026	160,264	10,905	171,169
2027	172,982	5,974	178,956
2028-2029	175,934	709	176,643
Total	<u>\$ 920,618</u>	<u>\$ 76,355</u>	<u>\$ 996,973</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 4 RESTRICTED ASSETS

The assets held in these accounts are restricted for specific uses. Restricted assets are as follows:

	Sno King Coalition Assets	Revenue and Refunding Bond Funds	Revenue Bond and DOE Loan Reserve Funds	Other	PERS 2/3	Total
<u>2022</u>						
Current Restricted Assets:						
Cash	\$ 46,605	\$ -	\$ -	\$ 2,000	\$ -	\$ 48,605
Investments	-	890,128	917,000	-	-	1,807,128
Interest Receivable	-	3,228	-	-	-	3,228
Assessments Receivable	-	36,422	-	-	-	36,422
Total	<u>46,605</u>	<u>929,778</u>	<u>917,000</u>	<u>2,000</u>	<u>-</u>	<u>1,895,383</u>
Noncurrent Restricted Assets:						
Assessments Receivable	-	-	-	-	-	-
Net Pension Asset	-	-	-	-	675,105	675,105
Total	<u>\$ 46,605</u>	<u>\$ 929,778</u>	<u>\$ 917,000</u>	<u>\$ 2,000</u>	<u>\$ 675,105</u>	<u>\$ 2,570,488</u>
<u>2021</u>						
Current Restricted Assets:						
Cash	\$ 37,767	\$ -	\$ -	\$ -	\$ -	\$ 37,767
Investments	-	923,931	917,000	-	-	1,840,931
Interest Receivable	-	3,865	-	-	-	3,865
Assessments Receivable	-	25,193	-	-	-	25,193
Total	<u>37,767</u>	<u>952,989</u>	<u>917,000</u>	<u>-</u>	<u>-</u>	<u>1,907,756</u>
Noncurrent Restricted Assets:						
Assessments Receivable	-	25,193	-	-	-	25,193
Net Pension Asset	-	-	-	-	1,762,843	1,762,843
Total	<u>\$ 37,767</u>	<u>\$ 978,182</u>	<u>\$ 917,000</u>	<u>\$ -</u>	<u>\$ 1,762,843</u>	<u>\$ 3,695,792</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, 2022 and 2021 was \$853,855 and \$881,674, respectively. The debt service and reserve accounts are fully funded.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 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>2022</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,679,825	\$ -	\$ -	\$ 1,679,825
Construction in Progress	1,420,866	4,702,171	(4,535,736)	1,587,301
Total	<u>3,100,691</u>	<u>4,702,171</u>	<u>(4,535,736)</u>	<u>3,267,126</u>
Capital Assets Being Depreciated:				
Reservoirs	8,056,261	-	-	8,056,261
Water System	30,547,591	1,958,150	(23,189)	32,482,552
Wastewater System	64,180,367	2,362,445	(1,167,787)	65,375,025
Treatment Plant and Capacity	33,026,280	179,092	(446,208)	32,759,164
Office Building and Improvements	5,440,704	-	-	5,440,704
Equipment and Other	3,094,078	58,690	(213,090)	2,939,678
Total	<u>144,345,281</u>	<u>4,558,377</u>	<u>(1,850,274)</u>	<u>147,053,384</u>
Accumulated Depreciation:				
Reservoirs	(2,120,376)	(144,380)	-	(2,264,756)
Water System	(7,986,132)	(433,509)	12,871	(8,406,770)
Wastewater System	(23,654,702)	(1,574,488)	1,154,188	(24,075,002)
Treatment Plant and Capacity	(14,197,536)	(977,925)	445,961	(14,729,500)
Office Building and Improvements	(2,445,363)	(148,769)	-	(2,594,132)
Equipment and Other	(2,105,931)	(212,530)	205,139	(2,113,322)
Total	<u>(52,510,040)</u>	<u>(3,491,601)</u>	<u>1,818,159</u>	<u>(54,183,482)</u>
Net Capital Assets	<u>\$ 94,935,932</u>	<u>\$ 5,768,947</u>	<u>\$ (4,567,851)</u>	<u>\$ 96,137,028</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 CAPITAL ASSETS (CONTINUED)

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2021</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,746,769	\$ -	\$ (66,944)	\$ 1,679,825
Construction in Progress	4,451,935	5,132,793	(8,163,862)	1,420,866
Total	<u>6,198,704</u>	<u>5,132,793</u>	<u>(8,230,806)</u>	<u>3,100,691</u>
Capital Assets Being Depreciated:				
Reservoirs	8,056,261	-	-	8,056,261
Water System	33,335,639	988,085	(3,776,133)	30,547,591
Wastewater System	60,710,343	3,842,222	(372,198)	64,180,367
Treatment Plant and Capacity	31,600,231	3,040,635	(1,614,586)	33,026,280
Office Building and Improvements	5,430,020	22,034	(11,350)	5,440,704
Equipment and Other	3,050,215	211,588	(167,725)	3,094,078
Total	<u>142,182,709</u>	<u>8,104,564</u>	<u>(5,941,992)</u>	<u>144,345,281</u>
Accumulated Depreciation:				
Reservoirs	(1,972,880)	(147,496)	-	(2,120,376)
Water System	(8,896,266)	(495,027)	1,405,161	(7,986,132)
Wastewater System	(22,638,099)	(1,378,357)	361,754	(23,654,702)
Treatment Plant and Capacity	(14,666,596)	(1,018,240)	1,487,300	(14,197,536)
Office Building and Improvements	(2,300,434)	(148,384)	3,455	(2,445,363)
Equipment and Other	(2,071,906)	(197,463)	163,438	(2,105,931)
Total	<u>(52,546,181)</u>	<u>(3,384,967)</u>	<u>3,421,108</u>	<u>(52,510,040)</u>
Net Capital Assets	<u>\$ 95,835,232</u>	<u>\$ 9,852,390</u>	<u>\$ (10,751,690)</u>	<u>\$ 94,935,932</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 6 LONG-TERM DEBT

Long-term debt outstanding at December 31 2022 and 2021 consisted of revenue bonds and direct borrowings and direct placements as follows:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Revenue and Refunding Bonds:		
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2023 with interest payable semi-annually at 4.30 annual percentage rate.	\$ 25,000	\$ 50,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate.	1,750,000	1,915,000
\$4,885,000 issued May 21, 2015 for refunding, due serially through the year 2028, with interest payable semi-annually at 4.00 annual percentage rate.	<u>3,090,000</u>	<u>3,540,000</u>
Total Revenue and Refunding Bonds	4,865,000	5,505,000
Direct Borrowings and Direct Placements:		
All issued for utility construction and secured by the revenue of the system.		
\$7,000,000 loan: Payable \$371,875 annually through the year 2026, plus interest at .5 annual percentage rate.	1,487,500	1,859,375
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	266,813	320,175
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	266,813	320,175
\$6,739,575 loan: Payable \$352,199 annually through the year 2028, plus interest at .5 annual percentage rate.	2,113,192	2,465,390

MUKILTEO WATER AND WASTEWATER DISTRICT
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NOTE 6 LONG-TERM DEBT (CONTINUED)

<u>Description (Continued)</u>	<u>2022</u>	<u>2021</u>
Direct Borrowings and Direct Placements (Continued):		
\$1,950,000 authorized, \$1,430,671 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$88,495 annually through the year 2032, plus interest at .5 annual percentage rate.	\$ 884,953	\$ 973,449
\$888,000 authorized, \$691,061 drawn to December 31, 2020. Based on draws to December 31, 2021, payable \$37,843 annually through the year 2032, plus interest at .25 annual percentage rate.	378,434	416,277
\$407,531 authorized, \$274,618 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$72,501 annually through the year 2024, plus interest at .79 annual percentage rate.	145,001	217,502
\$2,037,658 authorized, \$1,032,663 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$57,319 annually through the year 2039, plus interest at 1.58 annual percentage rate.	1,934,142	1,031,759
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.	355,373	416,897
Drinking Water State Revolving Loan:		
\$622,968 loan: Payable \$32,788 annually through the year 2024, plus interest at 1.50 annual percentage rate.	65,575	98,363
Total Direct Borrowings and Direct Placements	<u>7,897,796</u>	<u>8,119,362</u>
Total Long-Term Debt	12,762,796	13,624,362
Less: Current Maturities	(1,898,651)	(1,821,269)
Add: Unamortized Bond (Discounts) Premiums	<u>151,029</u>	<u>204,570</u>
Total	<u>\$ 11,015,174</u>	<u>\$ 12,007,663</u>

MUKILTEO WATER AND WASTEWATER DISTRICT
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NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2022):

Year Ending December 31,	Revenue and Refunding Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2023	\$ 660,000	\$ 187,575	\$ 1,238,612	\$ 53,858	\$ 2,140,045
2024	660,000	162,800	1,239,556	46,246	2,108,602
2025	685,000	138,150	1,135,224	38,304	1,996,678
2026	710,000	112,550	1,136,196	31,412	1,990,158
2027	735,000	86,000	765,308	24,506	1,610,814
2028-2032	1,415,000	109,200	1,586,089	71,506	3,181,796
2033-2037	-	-	568,665	30,719	599,384
2038-2039	-	-	228,146	3,686	231,832
Total	<u>\$ 4,865,000</u>	<u>\$ 796,275</u>	<u>\$ 7,897,797</u>	<u>\$ 300,237</u>	<u>\$ 13,859,309</u>

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>2022</u>					
Direct Borrowings and Direct Placements Public Works Trust Fund Loans	\$ 7,604,102	\$ 1,004,995	\$ (1,132,249)	\$ 7,476,848	\$ 1,143,411
Washington State Department of Ecology Loan	416,897	-	(61,524)	355,373	62,453
Drinking Water State Revolving Fund Loan	98,363	-	(32,788)	65,575	32,787
Revenue Bonds	5,505,000	-	(640,000)	4,865,000	660,000
Bond Premium	204,584	-	(53,555)	151,029	-
Bond Discount	(14)	-	14	-	-
Compensated Absences	248,472	207,353	(197,820)	258,005	197,800
Net Pension Liability PERS 1	168,283	219,740	-	388,023	-
Total	<u>\$ 14,245,687</u>	<u>\$ 1,432,088</u>	<u>\$ (2,117,922)</u>	<u>\$ 13,559,853</u>	<u>\$ 2,096,451</u>

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NOTE 7 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2021</u>					
Direct Borrowings and Direct Placements					
Public Works Trust					
Fund Loans	\$ 7,421,190	\$ 1,198,069	\$ (1,015,157)	\$ 7,604,102	\$ 1,086,958
Washington State Department of Ecology Loan	477,506	-	(60,609)	416,897	61,524
Drinking Water State Revolving Fund Loan	131,151	-	(32,788)	98,363	32,787
Revenue Bonds	6,125,000	-	(620,000)	5,505,000	640,000
Bond Premium	265,586	-	(61,002)	204,584	-
Bond Discount	(41)	-	27	(14)	-
Compensated Absences	317,642	295,090	(364,260)	248,472	248,472
Net Pension Liability PERS 1	485,467	-	(317,184)	168,283	-
Net Pension Liability PERS 2/3	229,636	-	(229,636)	-	-
Total	<u>\$ 15,453,137</u>	<u>\$ 1,493,159</u>	<u>\$ (2,700,609)</u>	<u>\$ 14,245,687</u>	<u>\$ 2,069,741</u>

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, 2022, the District's share is estimated to be as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 636,505
2024	188,142
2025	270,882
2026	380,272
2027	1,121,391
Thereafter	2,184,858
Total	<u>\$ 4,782,050</u>

As of December 31, 2022, the District is obligated under construction contracts totaling \$1,770,541 of which \$1,588,903 has been expended.

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NOTE 9 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2022 and 2021:

Aggregate Pension Amounts – All Plans		
	2022	2021
Pension Liabilities	\$ 388,023	\$ 168,283
Pension Assets	(675,105)	(1,762,843)
Deferred Outflows of Resources	675,108	216,389
Deferred Inflows of Resources	701,761	1,831,425
Pension Expense	(41,068)	(428,912)

State Sponsored Pension Plans

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR 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.

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NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 1 (Continued)

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.

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>2022</u>		
January through August		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.71	
Administrative Fee	0.18	
Total	<u>10.25 %</u>	<u>6.00 %</u>
September through December		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.85 %	
Administrative Fee	0.18	
Total	<u>10.39 %</u>	<u>6.00 %</u>
<u>2021</u>		
January through June		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	<u>12.97 %</u>	<u>6.00 %</u>
July through December		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.71	
Administrative Fee	0.18	
Total	<u>10.25 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$88,993 and \$93,214 for the years ended December 31, 2022 and 2021, respectively.

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NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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 five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.

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 five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 – defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% 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.

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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>2022</u>			
January through August			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>
September through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.85		
Administrative Fee	0.18		
Total	<u>10.39 %</u>	<u>6.36 %</u>	<u>Varies</u>
<u>2021</u>			
January through June			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87		
Administrative Fee	0.18		
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$150,844 and \$154,993 for the years ended December 31, 2022 and 2021, respectively.

Actuarial Assumptions

The 2022 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

The 2021 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

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NOTE 9 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional assumptions for subsequent events and law changes are current as of the 2021 and 2020 actuarial valuation reports. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022 and June 30, 2021. 2022 Plan liabilities/(assets) were rolled forward from June 30, 2021, to June 30, 2022, and 2021 Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation for the 2021 and 2020 actuarial valuations, 3.25% and 3.50% salary inflation for the 2021 and 2020 actuarial valuations, respectively.
- **Salary increases:** In addition to the base salary inflation assumptions, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.0% and 7.4% for the 2021 and 2020 actuarial valuations, respectively.

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 no changes in methods between the 2021 and 2020 valuations. There were changes in assumption between the 2021 and 2020 valuations.

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the Pension Funding Council. The investment return assumption was reduced from 7.5% to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

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NOTE 9 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

There were no changes in assumptions between the 2020 and 2019 valuations. There were changes in methods between the 2020 and 2019 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a noncontribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability/(asset) measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year-end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7.0% and 7.4% for the 2021 and 2020 valuations, respectively.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.0% and 7.4% was used to determine the total liability/(asset) for the 2021 and 2020 valuations, respectively.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% and 7.4% for the 2021 and 2020 valuations, respectively, was determined using a building-block-method. In selecting this assumption, 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 at various future times.

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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 tables is 2.2% for the 2021 and 2020 actuarial valuations and represents the WSIB's most recent long-term estimate of broad economic inflation.

As of June 30, 2021 and 2020 actuarial valuations:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2021 Actuarial Valuation</u>		
Fixed Income	20 %	1.50 %
Tangible Assets	7	4.70
Real Estate	18	5.40
Global Equity	32	5.90
Private Equity	23	8.90
Total	100 %	
<u>2020 Actuarial Valuation</u>		
Fixed Income	20 %	2.20 %
Tangible Assets	7	5.10
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	100 %	

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NOTE 9 PENSION PLAN (CONTINUED)

Sensitivity of NPL/(Asset)

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than applicable discount rate.

	1% Decrease <u>(6.0%)</u>	Current Discount Rate <u>(7.0%)</u>	1% Increase <u>(8.0%)</u>
<u>2022</u>			
PERS 1	\$ 518,393	\$ 388,023	\$ 274,240
PERS 2/3	795,025	(675,105)	(1,882,910)
	1% Decrease <u>(6.4%)</u>	Current Discount Rate <u>(7.4%)</u>	1% Increase <u>(8.4%)</u>
<u>2021</u>			
PERS 1	\$ 286,679	\$ 168,283	\$ 65,029
PERS 2/3	(502,200)	(1,762,843)	(2,800,983)

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, 2022 and 2021, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2022 and 2021):

	<u>2022</u>	<u>2021</u>
PERS 1	\$ 388,023	\$ 168,283
PERS 2/3	(675,105)	(1,762,843)
Total	<u>\$ (287,082)</u>	<u>\$ (1,594,560)</u>

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NOTE 9 PENSION PLAN (CONTINUED)

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

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

	<u>Proportionate Share 6/30/21</u>	<u>Proportionate Share 6/30/22</u>	<u>Change in Proportion</u>
PERS 1	0.013780 %	0.013936 %	0.000156 %
PERS 2/3	0.017696	0.018203	0.000507
	<u>Proportionate Share 6/30/20</u>	<u>Proportionate Share 6/30/21</u>	<u>Change in Proportion</u>
PERS 1	0.013751 %	0.013780 %	0.000029 %
PERS 2/3	0.017955	0.017696	(0.000259)

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

Pension Expense

For the years ended December 31, 2022 and 2021, the District recognized pension expense as follows:

	<u>2022</u>	<u>2021</u>
PERS 1	\$ 182,717	\$ (30,506)
PERS 2/3	(223,785)	(398,406)
Total	<u>\$ (41,068)</u>	<u>\$ (428,912)</u>

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NOTE 9 PENSION PLAN (CONTINUED)

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
<u>2022</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	64,307
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	44,231	-
Total PERS 1	\$ 44,231	\$ 64,307
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 167,275	\$ 15,283
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	499,110
Changes of Assumptions	376,278	98,523
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	13,216	24,538
Contributions Subsequent to the Measurement Date	74,108	-
Total PERS 2/3	\$ 630,877	\$ 637,454
Total All Plans	\$ 675,108	\$ 701,761

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NOTE 9 PENSION PLAN (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2021</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	186,737
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	40,645	-
Total PERS 1	\$ 40,645	\$ 186,737
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 85,619	\$ 21,611
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	1,473,323
Changes of Assumptions	2,576	125,191
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	18,048	24,563
Contributions Subsequent to the Measurement Date	69,501	-
Total PERS 2/3	\$ 175,744	\$ 1,644,688
Total All Plans	\$ 216,389	\$ 1,831,425

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 or an addition to the net pension asset in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	PERS 1	PERS 2/3
2023	\$ (27,213)	\$ (155,718)
2024	(24,717)	(137,451)
2025	(31,006)	(167,761)
2026	18,630	224,202
2027	-	77,996
Thereafter	-	78,049
Total	\$ (64,307)	\$ (80,685)

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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 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. Effective January 1, 2020, the District will match employee contributions up to two (2) percent of an employee's base salary. District contributions were \$38,331 and \$38,515 in 2022 and 2021, respectively.

NOTE 11 RISK MANAGEMENT

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities 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 contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract 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. The Pool was formed in November 1987 when water and sewer districts 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. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; and bonds of various types. Most coverages are on an "occurrence" basis.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 11 RISK MANAGEMENT (CONTINUED)

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$100,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood)
Terrorism	\$1,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000	\$500,000	\$10,000,000
Auto Liability	\$1,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000	Same as above	\$10,000,000
Employment Practices	\$1,000	Same as above	\$10,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

- A. \$100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight hour waiting period.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 11 RISK MANAGEMENT (CONTINUED)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler and Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2023, written notice must be in possession of the Pool by April 30, 2023). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

The Pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's executive director.

In the past three years (2022, 2021, and 2020), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 12 HEALTH AND WELFARE

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014, when participating cities, towns, and 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, 2022, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2022, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance Company. The aggregate policy is for 200% of expected medical claims.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 12 HEALTH AND WELFARE (CONTINUED)

Participating employers' contract to remain in the AWC Trust HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC 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 23% of its water from the City of Everett (the City) during 2022 and 2021, respectively, and 78% and 77% of its water from Alderwood Water and Wastewater District during 2022 and 2021, respectively. The City also provided treatment for approximately 31% and 32% of the District's wastewater during 2022 and 2021, respectively.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 14 ANNEXATION

The City of Everett has the contractual right to assume ownership of District assets in areas located within the City of Everett's Urban Growth Area (UGA) that have been annexed for at least 10 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, 2022, no estimate can be made of any loss that will result from future assumptions or the year in which they may occur.

NOTE 15 SNO-KING COALITION

The District is a member of Sno-King Coalition and currently serves as the Coalition's treasurer. Restricted cash of \$46,605 is held by the District on behalf of the Coalition and is offset by a payable to the Coalition. Transactions between the District consisted only of the District's member contributions to the Coalition totaling \$4,400 in 2022 and 2021.

NOTE 16 COVID-19 PANDEMIC

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 known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and nonessential activities. As of the end of 2022, it appears that the COVID-19 pandemic has had relatively minor impacts to the District's operations, ability to service the public, and finances.

MUKILTEO WATER AND WASTEWATER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET)
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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
2022	0.013936 %	\$ 388,023	\$ 2,289,237	16.95 %	76.56 %
2021	0.013780	168,283	2,116,572	7.95	88.74
2020	0.013751	485,467	2,444,097	19.86	68.64
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
2022	0.018203 %	\$ 675,105	\$ 2,289,237	29.49 %	106.73 %
2021	0.017696	(1,762,843)	2,116,572	(83.29)	120.29
2020	0.017955	229,636	2,444,097	9.40	97.22
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*
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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
2022	\$ 88,993	\$ (88,993)	\$ -	\$ 2,371,753	3.75 %
2021	93,214	(93,214)	-	2,162,150	4.31
2020	100,271	(100,271)	-	2,091,678	4.79
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
2022	\$ 150,844	\$ (150,844)	\$ -	\$ 2,371,753	6.36 %
2021	154,993	(154,993)	-	2,162,150	7.17
2020	165,661	(165,661)	-	2,091,678	7.92
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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
DEPARTMENTAL STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2022
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Service Charges:			
Residential	\$ 2,192,755	\$ 4,476,947	\$ 6,669,702
Commercial and Multi-Family	2,285,618	4,316,985	6,602,603
Total Service Charges	<u>4,478,373</u>	<u>8,793,932</u>	<u>13,272,305</u>
Late Charges	47,645	53,622	101,267
Miscellaneous	227,738	69,665	297,403
Total Operating Revenues	<u>4,753,756</u>	<u>8,917,219</u>	<u>13,670,975</u>
OPERATING EXPENSES			
Purchased Water	1,484,275	-	1,484,275
Wastewater Treatment	-	1,982,536	1,982,536
Operation Expenses	610,252	587,732	1,197,984
General and Administrative	1,498,949	1,928,488	3,427,437
Depreciation	748,715	2,742,886	3,491,601
Total Operating Expenses	<u>4,342,191</u>	<u>7,241,642</u>	<u>11,583,833</u>
OPERATING INCOME	411,565	1,675,577	2,087,142
NONOPERATING REVENUES (EXPENSES)			
Investment Income	142,318	151,634	293,952
Interest on Assessments	-	1,878	1,878
Other Interest	302	-	302
Net Loss on Disposal of Assets	(10,318)	(21,797)	(32,115)
Interest and Amortization on Long-Term Debt	(1,353)	(247,507)	(248,860)
Total Nonoperating Revenue (Expense)	<u>130,949</u>	<u>(115,792)</u>	<u>15,157</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	542,514	1,559,785	2,102,299
Capital Contributions	194,463	166,282	360,745
CHANGE IN NET POSITION	736,977	1,726,067	2,463,044
Net Position - Beginning of Year	<u>42,326,340</u>	<u>62,334,534</u>	<u>104,660,874</u>
NET POSITION - END OF YEAR	<u>\$ 43,063,317</u>	<u>\$ 64,060,601</u>	<u>\$ 107,123,918</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
DEPARTMENTAL STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2021
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Service Charges:			
Residential	\$ 2,179,907	\$ 4,345,760	\$ 6,525,667
Commercial and Multi-Family	2,237,962	4,068,223	6,306,185
Total Service Charges	<u>4,417,869</u>	<u>8,413,983</u>	<u>12,831,852</u>
Late Charges	19,098	21,613	40,711
Miscellaneous	231,293	79,540	310,833
Total Operating Revenues	<u>4,668,260</u>	<u>8,515,136</u>	<u>13,183,396</u>
OPERATING EXPENSES			
Purchased Water	1,403,948	-	1,403,948
Wastewater Treatment	-	2,021,570	2,021,570
Operation Expenses	523,824	616,686	1,140,510
General and Administrative	1,058,539	1,395,358	2,453,897
Depreciation	813,928	2,571,039	3,384,967
Total Operating Expenses	<u>3,800,239</u>	<u>6,604,653</u>	<u>10,404,892</u>
OPERATING INCOME	868,021	1,910,483	2,778,504
NONOPERATING REVENUES (EXPENSES)			
Investment Income	12,116	24,590	36,706
Interest on Assessments	-	1,871	1,871
Other Interest	351	-	351
Net Loss on Disposal of Assets	(2,375,395)	(191,589)	(2,566,984)
Interest and Amortization on Long-Term Debt	(2,008)	(261,011)	(263,019)
Total Nonoperating Revenue (Expense)	<u>(2,364,936)</u>	<u>(426,139)</u>	<u>(2,791,075)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,496,915)	1,484,344	(12,571)
Capital Contributions	182,603	207,045	389,648
CHANGE IN NET POSITION	(1,314,312)	1,691,389	377,077
Net Position - Beginning of Year	43,640,652	60,643,145	104,283,797
NET POSITION - END OF YEAR	<u>\$ 42,326,340</u>	<u>\$ 62,334,534</u>	<u>\$ 104,660,874</u>



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