



**MUKILTEO WATER AND WASTEWATER DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2020 AND 2019**

**MUKILTEO WATER AND WASTEWATER DISTRICT  
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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, 2020 and 2019, 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 AICPA. 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.

### ***Accountants' Conclusion***

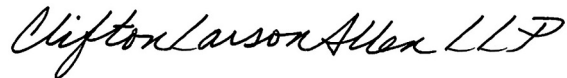
Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***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, reviewed, or compiled the management's discussion and analysis and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it. We have reviewed the remaining required supplementary information. 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. We are not aware of any material modifications that should be made to this required supplementary information. We have not audited this required supplementary information and do not express an opinion on such information.

***Additional Supplementary Information***

The additional 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 review 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  
April 30, 2021

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(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, 2020 and 2019 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, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital Assets	\$ 95,835,232	\$ 94,749,997	\$ 94,678,093
Other Assets	25,771,886	25,122,320	23,277,662
Total Assets	<u>121,607,118</u>	<u>119,872,317</u>	<u>117,955,755</u>
Deferred Outflows of Resources	<u>430,420</u>	<u>457,718</u>	<u>478,323</u>
Long-Term Liabilities	13,436,316	15,041,433	16,796,405
Other Liabilities	4,092,360	4,172,156	4,052,833
Total Liabilities	<u>17,528,676</u>	<u>19,213,589</u>	<u>20,849,238</u>
Deferred Inflows of Resources	<u>225,065</u>	<u>428,944</u>	<u>384,655</u>
Net Investment in Capital Assets	81,197,873	78,902,242	77,399,380
Restricted Amounts	1,830,853	1,398,971	1,411,621
Unrestricted Amounts	<u>21,255,071</u>	<u>20,386,289</u>	<u>18,389,184</u>
Total Net Position	<u>\$ 104,283,797</u>	<u>\$ 100,687,502</u>	<u>\$ 97,200,185</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Wastewater Service Revenue	\$ 8,113,680	\$ 8,075,437	\$ 7,895,000
Water Service Revenue	4,130,473	4,184,999	4,189,597
Other Wastewater Operating Revenues	191,242	197,815	251,133
Other Water Operating Revenues	174,574	244,224	236,347
Total Operating Revenues	<u>12,609,969</u>	<u>12,702,475</u>	<u>12,572,077</u>
Wastewater Operating Expenses	2,475,990	2,245,458	2,148,510
Water Operating Expenses	1,859,429	1,834,079	1,807,201
General and Administrative Expenses, Wastewater	1,511,816	1,430,585	1,335,639
General and Administrative Expenses, Water	1,257,497	1,240,410	1,174,280
Depreciation, Wastewater	2,575,126	2,618,046	2,479,664
Depreciation, Water	812,885	810,048	803,103
Total Operating Expenses	<u>10,492,743</u>	<u>10,178,626</u>	<u>9,748,397</u>
Operating Income	2,117,226	2,523,849	2,823,680
Nonoperating Revenue (Expense):			
Interest	172,404	468,298	391,610
Gain (Loss) on Disposal of Assets	(188,502)	460,426	(327,604)
Interest and Amortization	(273,982)	(291,560)	(314,582)
Income Before Capital Contributions	<u>1,827,146</u>	<u>3,161,013</u>	<u>2,573,104</u>
Capital Contributions	1,769,149	326,304	1,940,856
Increase in Net Position	3,596,295	3,487,317	4,513,960
Net Position, January 1	<u>100,687,502</u>	<u>97,200,185</u>	<u>92,686,225</u>
Net Position, December 31	<u>\$ 104,283,797</u>	<u>\$ 100,687,502</u>	<u>\$ 97,200,185</u>

**FINANCIAL POSITION**

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

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2020 and 2019 due to increases in construction activity, donated systems, and asset purchases.

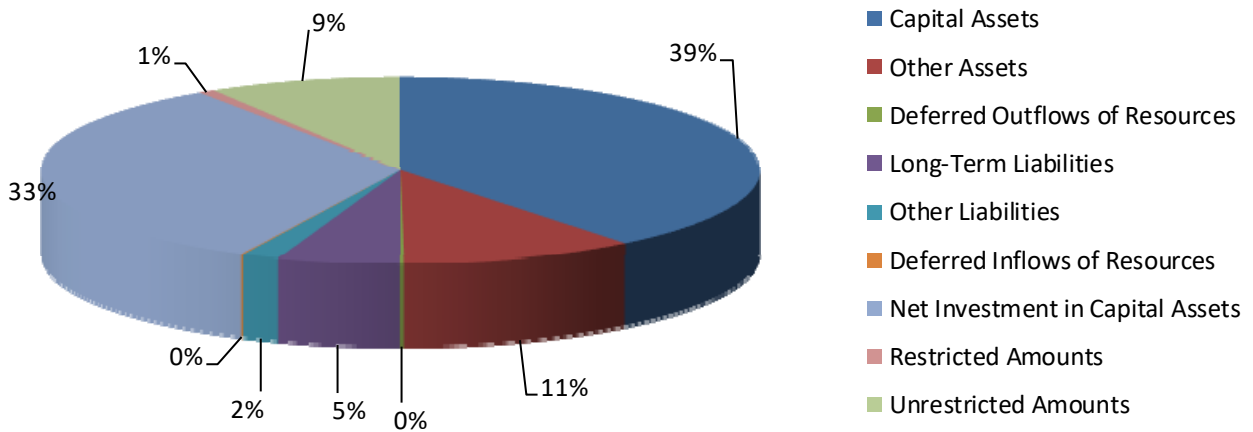
The District is located in Snohomish County, Washington.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

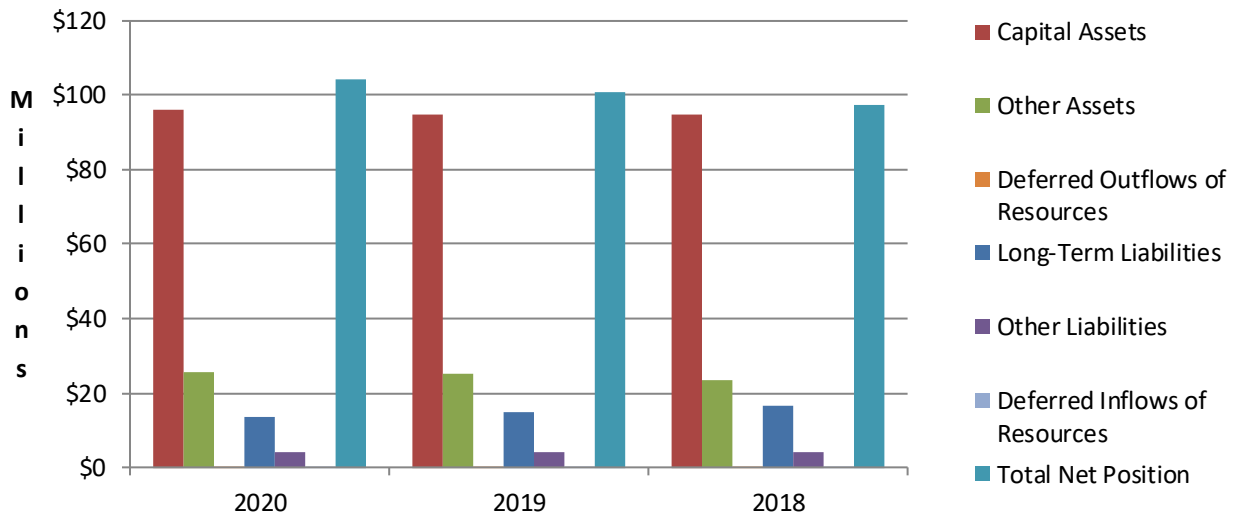
**FINANCIAL POSITION (CONTINUED)**

The following charts indicate the components of financial position:

**2020 STATEMENT OF NET POSITION**



**COMPARATIVE STATEMENT OF NET POSITION**



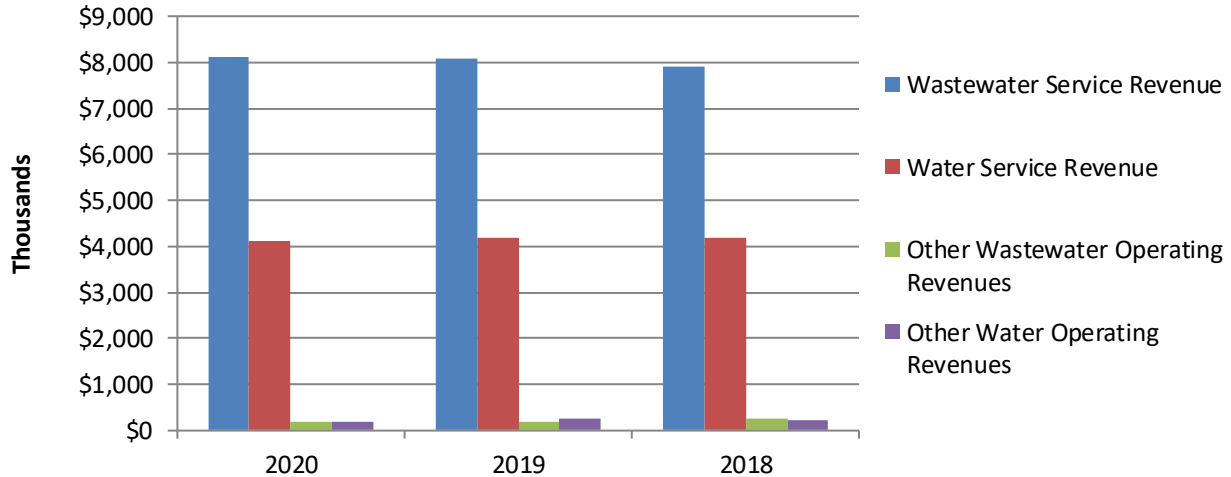


**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**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.

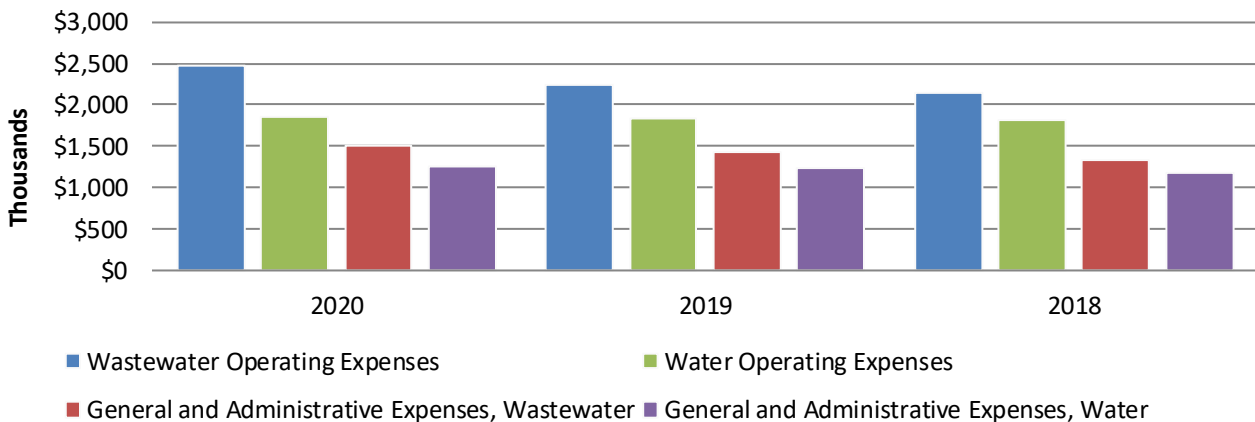
**OPERATING REVENUES**



In April of 2020, Washington State Governor Jay Inslee placed a moratorium on water shut-offs and late fees due to the COVID-19 pandemic, which led to lower revenue from fees. Water revenue also decreased slightly in 2020 due to reduced water consumption of Commercial accounts during the COVID-19 pandemic. This reduced Commercial account revenue and reduced fees are directly related to the COVID-19 pandemic and is not an on-going occurrence. Even with these slight decreases in revenue, the District remains in a strong financial position. Wastewater revenues in 2020 were comparable to 2019. The increase in water and wastewater revenues in 2019 was primarily due to rate increases.

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

**OPERATING EXPENSES**



**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**RESULTS OF OPERATIONS (CONTINUED)**

Wastewater operating expenses increased in 2020 primarily due to a rate increase for wastewater treatment costs. The increase in 2019 was due to an increase in labor. Water operating expenses in 2020 were comparable to 2019. The decrease in 2019 was primarily due to a net effect of an increase in labor costs offset by a decrease in maintenance costs from 2018 and an inventory adjustment.

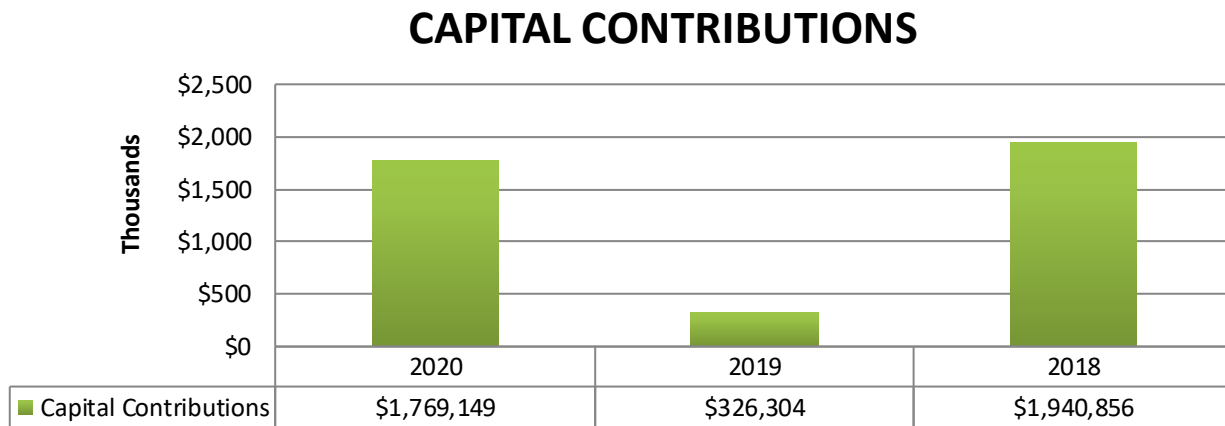
Wastewater general and administrative expenses increased in 2020 primarily due to the District assuming credit card fees, an increase insurance coverage, and a new remote module for the new phone system. The increase in 2019 was due to a new software system, as well as increases in insurance premium and legal fees. Water general and administrative expenses in 2020 were comparable to 2019. The increase in 2019 was due to a new software system, as well as increases in insurance premium and legal fees.

The District operated at a profit in 2020, 2019, and 2018. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

**CAPITAL CONTRIBUTIONS**

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

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



The contributions are indicative of the growth of the District and include donated systems totaling \$537,060, \$33,980, and \$862,612 for the years ended December 31, 2020, 2019, and 2018, respectively.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital assets increased in 2020 and 2019 due to increases in construction activity, donated systems, and asset purchases.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)**

Significant capital asset additions included the following:

<u>2020</u>		<u>2019</u>	
Possession View Water Main	\$ 327,972	WA Ave Water Main	\$ 881,630
8th/9th/10th St Water Main	51,493	Operations Storage Bldg	95,344
LS 9 Replacement	1,666,348	LS 9 Force Main	1,277,603
LS 5 Force Main Replacement	110,887	LS 9 Replacement	250,652
LS 5 Replacement	124,910	WWTF Lab Bldg Replacement	312,328
WWTF Lab Bldg Replacement	1,861,264	Clarifier #1 Floor Rehab	54,506
Donated Systems	537,060	Operations Storage Bldg	107,518
		Fen & Chlor Bldg Updgrade-Evt 3614	295,747
		Donated Systems	33,980

The decrease in long-term debt in 2020 and 2019 was due to principal payments made by the District in excess of new borrowings.

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

As of December 31, 2020, the District has \$17,724,668 of cash and investments set aside in capital accounts of which \$873,635 is committed under existing contracts.

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

**ADDITIONAL COMMENTS**

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

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for over ten years. See Note 14 in the financial statements for more details.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2020 AND 2019**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

<b>ASSETS</b>	2020	2019
<b>CURRENT ASSETS</b>		
Unrestricted:		
Cash	\$ 1,488,157	\$ 490,178
Investments	20,506,848	20,814,375
Accounts Receivable	1,393,862	1,793,548
Contract Receivable - Current Portion	5,843	5,843
Interest Receivable	6,214	65,916
Inventory	298,149	298,169
Prepaid Expenses	200,650	210,829
Total Unrestricted	23,899,723	23,678,858
Restricted:		
Cash	26,102	21,120
Investments	1,767,451	1,280,756
Interest Receivable	3,125	10,316
Assessments Receivable - Current Portion	23,061	26,975
Total Restricted	1,819,739	1,339,167
Total Current Assets	25,719,462	25,018,025
<b>NONCURRENT ASSETS</b>		
Unrestricted:		
Contract Receivable, Less Current Portion	17,528	23,371
Restricted:		
Assessments Receivable, Less Current Portion	34,896	80,924
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,746,769	1,736,469
Construction in Progress	4,451,935	1,122,690
Capital Assets Being Depreciated:		
Plant in Service	142,182,709	143,398,420
Less: Accumulated Depreciation	(52,546,181)	(51,507,582)
Net Capital Assets	95,835,232	94,749,997
Total Noncurrent Assets	95,887,656	94,854,292
Total Assets	121,607,118	119,872,317
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding of Debt	189,847	241,936
Deferred Outflows Related to Pensions	240,573	215,782
Total Deferred Outflows of Resources	430,420	457,718
Total Assets and Deferred Outflows of Resources	\$ 122,037,538	\$ 120,330,035

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

<b>LIABILITIES</b>	2020	2019
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,759,908	\$ 1,912,113
Accrued Salaries and Benefits	58,045	58,794
Compensated Absences	317,642	354,000
Customer Deposits	64,500	64,500
Developer Deposits	79,151	22,173
Retainage Payable	13,144	4,885
Accrued Interest	77,009	83,135
Long-Term Debt - Current Maturities	1,699,179	1,651,436
Total Payable from Unrestricted Assets	4,068,578	4,151,036
Payable from Restricted Assets:		
Accounts Payable	23,782	21,120
Total Payable from Restricted Assets	23,782	21,120
Total Current Liabilities	4,092,360	4,172,156
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Maturities	12,721,213	14,281,012
Compensated Absences	-	21,268
Net Pension Liability	715,103	739,153
Total Noncurrent Liabilities	13,436,316	15,041,433
Total Liabilities	17,528,676	19,213,589
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to Pensions	225,065	428,944
Total Liabilities and Deferred Inflows of Resources	17,753,741	19,642,533
<b>NET POSITION</b>		
Net Investment in Capital Assets	81,197,873	78,902,242
Restricted for Debt Service	1,828,533	1,398,971
Restricted for Sno-King Coalition	2,320	
Unrestricted	21,255,071	20,386,289
Total Net Position	104,283,797	100,687,502
Total Liabilities and Deferred Inflows of Resources and Net Position	\$ 122,037,538	\$ 120,330,035

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, 2020 AND 2019**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2020	2019
<b>OPERATING REVENUES</b>		
Service Charges:		
Residential	\$ 6,392,881	\$ 6,323,481
Commercial and Multi-Family	5,851,272	5,936,955
Total Service Charges	12,244,153	12,260,436
Late Charges	39,096	101,353
Miscellaneous	326,720	340,686
Total Operating Revenues	12,609,969	12,702,475
 <b>OPERATING EXPENSES</b>		
Purchased Water	1,278,944	1,367,800
Wastewater Treatment	1,905,995	1,647,765
Operation Expenses	1,150,480	1,063,972
General and Administrative	2,769,313	2,670,995
Depreciation	3,388,011	3,428,094
Total Operating Expenses	10,492,743	10,178,626
 <b>OPERATING INCOME</b>	2,117,226	2,523,849
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment Income	167,905	462,078
Interest on Assessments	4,030	5,694
Other Interest	469	526
Net Gain (Loss) on Disposal of Assets	(188,502)	460,426
Interest and Amortization on Long-Term Debt	(273,982)	(291,560)
Total Nonoperating Revenue (Expense)	(290,080)	637,164
 <b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	1,827,146	3,161,013
Capital Contributions	1,769,149	326,304
 <b>CHANGE IN NET POSITION</b>	3,596,295	3,487,317
Net Position - Beginning of Year	100,687,502	97,200,185
 <b>NET POSITION - END OF YEAR</b>	\$ 104,283,797	\$ 100,687,502

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 13,066,633	\$ 12,787,977
Cash Paid to Vendors	(4,447,295)	(3,901,682)
Cash Paid to and for Employees and Commissioners	(3,349,188)	(3,001,857)
Net Cash Provided by Operating Activities	5,270,150	5,884,438
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital Contributions	1,232,089	292,324
Interest Received on Assessments and Contract Receivable	6,279	7,796
Collections on ULID Assessments	49,942	64,654
Proceeds from Sale of Assets	18,877	548,712
Proceeds from Issuance of Debt	207,545	223,005
Principal Paid on Debt	(1,651,437)	(1,626,708)
Interest Paid on Long-Term Debt	(296,183)	(314,073)
Expenditures for Plant in Service, Construction, and Preliminary Surveys and Investigations	(3,893,994)	(3,564,253)
Net Cash Provided (Used) by Capital Financing Activities	(4,326,882)	(4,368,543)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds From Sale of Investments	18,755,773	28,976,477
Purchase of Investments	(18,950,682)	(30,960,745)
Collections on City of Everett Contract	5,843	5,843
Interest Received on Investments and City of Everett Contract	248,759	204,140
Net Cash Provided (Used) by Investing Activities	59,693	(1,774,285)
<b>NET INCREASE (DECREASE) IN CASH</b>	1,002,961	(258,390)
Cash - Beginning of Year	511,298	769,688
<b>CASH - END OF YEAR</b>	\$ 1,514,259	\$ 511,298
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash - Unrestricted	\$ 1,488,157	\$ 490,178
Cash - Restricted	26,102	21,120
Total	\$ 1,514,259	\$ 511,298

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	2020	2019
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 2,117,226	\$ 2,523,849
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,388,011	3,428,094
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	399,686	145,166
Inventory	20	(25,704)
Prepaid Expenses	10,179	(52,377)
Deferred Outflows Related to Pensions	(24,791)	(37,292)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Deposits	(333,877)	34,781
Accrued Salaries and Compensated Absences	(58,375)	20,208
Net Pension Liability	(24,050)	(196,576)
Deferred Inflows Related to Pensions	(203,879)	44,289
Net Cash Provided by Operating Activities	\$ 5,270,150	\$ 5,884,438
 <b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Utility Plant Donations Received	\$ 537,060	\$ 33,980

See accompanying Notes to Financial Statements.



**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**  
(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.

**Newly Implemented Accounting Standards**

The Districted implemented GASB 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which improves the consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. The implementation of this standard had no impact on the statement of net position or net income and had a minimal impact in the debt related footnotes.

**Cash**

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

**Investments**

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

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

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

**Accounts Receivable**

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

**Inventory**

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

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

**Capital Assets**

Capital assets are stated at cost and include the capitalized portion of District employees' wages. For water and wastewater systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's estimated cost. Expenditures for capital assets exceeding \$10,000, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

**Pensions**

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

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price.

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

**Deferred Outflows/Inflows of Resources (Continued)**

Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**Compensated Absences**

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

**Long-Term Debt**

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

**Net Position**

Net position is classified in the following three components:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

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

**Net Position (Continued)**

*Unrestricted Net Position* – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

**Revenues and Expenses**

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

**Capital Contributions**

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

**Use of Estimates in Financial Statement Preparation**

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

Cash on hand at December 31, 2020 and 2019 was \$1,000 and \$1,000, respectively. The District’s bank balances as of December 31, 2020 and 2019 were \$1,513,259 and \$510,298, 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 depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**MUKILTEO WATER AND WASTEWATER DISTRICT  
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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments**

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

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

	<u>2020</u>	<u>2019</u>
Money Market Accounts	\$ 1,767,260	\$ 1,754,254
Certificates of Deposit	3,760,146	2,184,600
Local Government Investment Pool	16,746,893	12,256,818
U.S. Government Agency Issues	-	5,899,459
Total	<u>\$ 22,274,299</u>	<u>\$ 22,095,131</u>

**Investments Measured at Amortized Cost**

	<u>2020</u>	<u>2019</u>
Money Market Accounts	\$ 1,767,260	\$ 1,754,254
Certificates of Deposit	3,760,146	2,184,600
Local Government Investment Pool	16,746,893	12,256,818
Total	<u>\$ 22,274,299</u>	<u>\$ 16,195,672</u>

**Investments in Local Government Investment Pool**

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

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

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

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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments Measured at Fair Value**

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

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

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2019				
U.S. Government Agency Issues	<u>\$ -</u>	<u>\$ 5,899,459</u>	<u>\$ -</u>	<u>\$ 5,899,459</u>

**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 Districts certificates of deposit and U.S. Government Agency Issues as of December 31, 2020 and 2019 was .65 years and 1.24 years, respectively.

**Credit Risk**

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

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**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

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

**Concentration of Credit Risk**

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

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

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

	<u>2020</u>	<u>2019</u>
Federal Home Loan Mortgage Corporation	\$ -	\$ 2,899,408
Federal Home Loan Bank	-	3,000,051
Commencement Bank	1,980,203	-
East West Bank	1,523,932	-

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**NOTE 3 RESTRICTED ASSETS**

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

	Sno King Coalition Assets	Revenue and Refunding Bond Funds	Revenue Bond and DOE Loan Reserve Funds	Total
<u>2020</u>				
Current Restricted Assets:				
Cash	\$ 26,102	\$ -	\$ -	\$ 26,102
Investments	-	850,451	917,000	1,767,451
Interest Receivable	-	3,125	-	3,125
Assessments Receivable	-	23,061	-	23,061
Total	<u>26,102</u>	<u>876,637</u>	<u>917,000</u>	<u>1,819,739</u>
Noncurrent Restricted Assets:				
Assessments Receivable	-	34,896	-	34,896
Total	<u>\$ 26,102</u>	<u>\$ 911,533</u>	<u>\$ 917,000</u>	<u>\$ 1,854,635</u>
<u>2019</u>				
Current Restricted Assets:				
Cash	\$ 21,120	\$ -	\$ -	\$ 21,120
Investments	-	355,092	925,664	1,280,756
Interest Receivable	-	9,134	1,182	10,316
Assessments Receivable	-	26,975	-	26,975
Total	<u>21,120</u>	<u>391,201</u>	<u>926,846</u>	<u>1,339,167</u>
Noncurrent Restricted Assets:				
Assessments Receivable	-	80,924	-	80,924
Total	<u>\$ 21,120</u>	<u>\$ 472,125</u>	<u>\$ 926,846</u>	<u>\$ 1,420,091</u>

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, 2020 and 2019 was \$904,174 and \$885,624, respectively. The debt service and reserve accounts are fully funded.



**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**NOTE 4 CAPITAL ASSETS**

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

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2020</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,736,469	\$ 10,300	\$ -	\$ 1,746,769
Construction in Progress	1,122,690	4,178,202	(848,957)	4,451,935
Total	<u>2,859,159</u>	<u>4,188,502</u>	<u>(848,957)</u>	<u>6,198,704</u>
Capital Assets Being Depreciated:				
Reservoirs	8,056,261	-	-	8,056,261
Water System	33,219,694	751,916	(635,971)	33,335,639
Wastewater System	61,720,268	65,078	(1,075,003)	60,710,343
Treatment Plant and Capacity	31,468,358	445,257	(313,384)	31,600,231
Office Building and Improvements	5,389,877	40,143	-	5,430,020
Equipment and Other	3,543,962	38,687	(532,434)	3,050,215
Total	<u>143,398,420</u>	<u>1,341,081</u>	<u>(2,556,792)</u>	<u>142,182,709</u>
Accumulated Depreciation:				
Reservoirs	(1,825,376)	(147,504)	-	(1,972,880)
Water System	(8,863,696)	(493,066)	460,496	(8,896,266)
Wastewater System	(22,273,368)	(1,407,829)	1,043,098	(22,638,099)
Treatment Plant and Capacity	(13,986,641)	(993,339)	313,384	(14,666,596)
Office Building and Improvements	(2,156,067)	(144,367)	-	(2,300,434)
Equipment and Other	(2,402,434)	(201,906)	532,434	(2,071,906)
Total	<u>(51,507,582)</u>	<u>(3,388,011)</u>	<u>2,349,412</u>	<u>(52,546,181)</u>
Net Capital Assets	<u>\$ 94,749,997</u>	<u>\$ 2,141,572</u>	<u>\$ (1,056,337)</u>	<u>\$ 95,835,232</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**NOTE 4 CAPITAL ASSETS (CONTINUED)**

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

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**NOTE 5 LONG-TERM DEBT**

Long-term debt outstanding at December 31 2020 and 2019 consisted of revenue bonds and direct borrowings and direct placements as follows:

Description	2020	2019
<b>Revenue and Refunding Bonds:</b>		
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2023 with interest payable semi-annually at 4.20 to 4.30 annual percentage rate.	\$ 75,000	\$ 100,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually at 2.25 to 4.00 annual percentage rate.	2,075,000	2,235,000
\$4,885,000 issued May 21, 2015 for refunding, due serially through the year 2028, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate.	3,975,000	4,400,000
Total Revenue and Refunding Bonds	6,125,000	6,735,000
<b>Direct Borrowings and Direct Placements:</b>		
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.	2,231,250	2,603,125
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	373,538	426,900
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	373,538	426,900
\$6,739,575 loan: Payable \$352,199 annually through the year 2028, plus interest at .5 annual percentage rate.	2,817,589	3,169,787

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**NOTE 5 LONG-TERM DEBT (CONTINUED)**

Description	2020	2019
\$1,950,000 authorized, \$1,422,613 drawn to December 31, 2020. Based on draws to December 31, 2020, payable \$87,824 annually through the year 2032, plus interest at .5 annual percentage rate.	\$ 1,053,885	\$ 1,043,910
\$888,000 authorized, \$691,061 drawn to December 31, 2020. Based on draws to December 31, 2020, payable \$37,843 annually through the year 2032, plus interest at .25 annual percentage rate.	454,121	491,965
\$407,531 authorized, \$117,269 drawn to December 31, 2020. Based on draws to December 31, 2020, payable \$29,317 annually through the year 2024, plus interest at .79 annual percentage rate.	117,269	-
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.	477,506	537,212
Drinking Water State Revolving Loan: \$622,968 loan: Payable \$32,788 annually through the year 2024, plus interest at 1.50 annual percentage rate.	131,151	163,939
Total Direct Borrowings and Direct Placements	<u>8,029,847</u>	<u>8,863,738</u>
Total Long-Term Debt	14,154,847	15,598,738
Less: Current Maturities	(1,699,179)	(1,651,436)
Add: Unamortized Bond (Discounts) Premiums	265,545	333,710
Total	<u>\$ 12,721,213</u>	<u>\$ 14,281,012</u>

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2020):

Year Ending December 31,	Revenue and Refunding Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2021	\$ 620,000	\$ 229,287	\$ 1,079,179	\$ 45,218	\$ 1,973,684
2022	640,000	211,588	1,080,095	38,909	1,970,592
2023	660,000	187,575	1,081,024	32,569	1,961,168
2024	660,000	162,800	1,081,967	26,215	1,930,982
2025	685,000	138,150	1,020,820	19,846	1,863,816
2026-2030	2,635,000	298,750	2,435,427	31,116	5,400,293
2031-2032	225,000	9,000	251,335	1,601	486,936
Total	<u>\$ 6,125,000</u>	<u>\$ 1,237,150</u>	<u>\$ 8,029,847</u>	<u>\$ 195,474</u>	<u>\$ 15,587,471</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
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**NOTE 6 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>2020</u>					
Director Borrowings and Direct Placements					
Public Works Trust					
Fund Loans	\$ 8,162,587	\$ 207,545	\$ (948,942)	\$ 7,421,190	\$ 985,783
Washington State Department of Ecology Loan	537,212	-	(59,706)	477,506	60,609
Drinking Water State Revolving Fund Loan	163,939	-	(32,788)	131,151	32,787
Revenue Bonds	6,735,000	-	(610,000)	6,125,000	620,000
Bond Premium	333,791	-	(68,205)	265,586	-
Bond Discount	(81)	-	40	(41)	-
Compensated Absences	375,268	325,358	(382,984)	317,642	317,642
Net Pension Liability	739,153	-	(24,050)	715,103	-
Total	<u>\$ 17,046,869</u>	<u>\$ 532,903</u>	<u>\$ (2,126,635)</u>	<u>\$ 15,453,137</u>	<u>\$ 2,016,821</u>
<u>2019</u>					
Director Borrowings and Direct Placements					
Public Works Trust					
Fund Loans	\$ 8,874,684	\$ 223,005	\$ (935,102)	\$ 8,162,587	\$ 948,943
Washington State Department of Ecology Loan	596,030	-	(58,818)	537,212	59,707
Drinking Water State Revolving Fund Loan	196,727	-	(32,788)	163,939	32,786
Revenue Bonds	7,335,000	-	(600,000)	6,735,000	610,000
Bond Premium	409,047	-	(75,256)	333,791	-
Bond Discount	(134)	-	53	(81)	-
Compensated Absences	364,719	364,537	(353,988)	375,268	354,000
Net Pension Liability	935,729	-	(196,576)	739,153	-
Total	<u>\$ 18,711,802</u>	<u>\$ 587,542</u>	<u>\$ (2,252,475)</u>	<u>\$ 17,046,869</u>	<u>\$ 2,005,436</u>

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**NOTE 7 COMMITMENTS**

The District is obligated to the city of Everett to pay for a portion of certain city projects. As of December 31, 2020, the District's share is estimated to be as follows:

<u>Years Ending December 31.</u>	<u>Amount</u>
2021	\$ 56,000
2022	50,000
2023	44,000
2024	-
2025	-
Thereafter	3,488,000
Total	<u>\$ 3,638,000</u>

As of December 31, 2020, the District is obligated under construction contracts totaling \$3,565,604 of which \$2,688,969 has been expended.

**NOTE 8 PENSION PLAN**

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2020 and 2019:

<u>Aggregate Pension Amounts – All Plans</u>		
	<u>2020</u>	<u>2019</u>
Pension Liabilities	\$ 715,103	\$ 739,153
Deferred Outflows of Resources	240,573	215,782
Deferred Inflows of Resources	225,065	428,944
Pension Expense	11,065	79,623

**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.

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**NOTE 8 PENSION PLAN (CONTINUED)**

**State Sponsored Pension Plans (Continued)**

The Department of Retirement Systems (DRS), a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98540-8380

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

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**Contributions** – The PERS Plan 1 member contribution rate is established by state statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

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**NOTE 8 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (Continued)**

**Contributions (Continued)**

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

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2020</u>		
January through August		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	<u>12.86 %</u>	<u>6.00 %</u>
September through December		
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>
<u>2019</u>		
January through June		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	<u>12.83 %</u>	<u>6.00 %</u>
July through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	<u>12.86 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$100,271 and \$102,934 for the years ended December 31, 2020 and 2019, respectively.

**PERS Plan 2/3** – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.



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**NOTE 8 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (Continued)**

**PERS Plan 2/3 (Continued)**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** – defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of 6 options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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**NOTE 8 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>2020</u>			
January through August			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	
September through December			
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>2019</u>			
January through June			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	
July through December			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	

The District's actual contributions to the plan were \$165,661 and \$160,276 for the years ended December 31, 2020 and 2019, respectively.

**Actuarial Assumptions**

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

The 2019 TPL for each of the DRS plans was determined using the actuarial valuation completed in 2019, with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic experience Study*.

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**NOTE 8 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Additional 2020 assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. Additional 2019 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020 and June 30, 2019. 2020 Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, and 2019 Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

2020 Mortality rates were developed using the Society of Actuaries' Pub. H-2020 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.

2019 Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions between the 2020 and 2019 valuations.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.

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**NOTE 8 PENSION PLAN (CONTINUED)**

- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

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

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

**Discount Rate**

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

To determine that rate, an asset sufficiency test 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 7.4% was used to determine the total liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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**NOTE 8 PENSION PLAN (CONTINUED)**

**Estimated Rates of Return by Asset Class**

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

As of June 30, 2020 and 2019:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</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	<u>100 %</u>	

**Sensitivity of NPL**

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

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
<u>2020</u>			
PERS 1	\$ 608,075	\$ 485,467	\$ 378,540
PERS 2/3	1,428,860	229,636	(757,924)
<u>2019</u>			
PERS 1	\$ 698,072	\$ 557,423	\$ 435,393
PERS 2/3	1,393,797	181,730	(812,851)

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**NOTE 8 PENSION PLAN (CONTINUED)**

**Pension Plan Fiduciary Net Position**

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

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

At December 31, 2020 and 2019, the District reported a net pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2020 and 2019):

	<u>2020</u>	<u>2019</u>
PERS 1	\$ 485,467	\$ 557,423
PERS 2/3	229,636	181,730
Total	<u>\$ 715,103</u>	<u>\$ 739,153</u>

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

	<u>Proportionate Share 6/30/19</u>	<u>Proportionate Share 6/30/20</u>	<u>Change in Proportion</u>
PERS 1	0.014496 %	0.013751 %	(0.000745)%
PERS 2/3	0.018709	0.017955	(0.000754)
	<u>Proportionate Share 6/30/18</u>	<u>Proportionate Share 6/30/19</u>	<u>Change in Proportion</u>
PERS 1	0.014042 %	0.014496 %	0.000454 %
PERS 2/3	0.018074	0.018709	0.000635

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

The 2020 and 2019 collective net pension liability (asset) was measured as of June 30, 2020 and 2019, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019 and 2018, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

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**NOTE 8 PENSION PLAN (CONTINUED)**

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

**Pension Expense**

For the years ended December 31, 2020 and 2019, the District recognized pension expense as follows:

	2020	2019
PERS 1	\$ (6,838)	\$ 46,557
PERS 2/3	20,049	27,076
Expenses and Other	(2,146)	5,990
Total	<u>\$ 11,065</u>	<u>\$ 79,623</u>

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2020</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	2,703
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	50,074	-
Total PERS 1	<u>\$ 50,074</u>	<u>\$ 2,703</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 82,207	\$ 28,779
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	11,662
Changes of Assumptions	3,271	156,862
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	22,881	25,059
Contributions Subsequent to the Measurement Date	82,140	-
Total PERS 2/3	<u>\$ 190,499</u>	<u>\$ 222,362</u>
Total All Plans	<u>\$ 240,573</u>	<u>\$ 225,065</u>

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**NOTE 8 PENSION PLAN (CONTINUED)**

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

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

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

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

<u>Year Ending December 31,</u>	PERS 1	PERS 2/3
2021	\$ (12,266)	\$ (95,452)
2022	(386)	(22,943)
2023	3,743	3,914
2024	6,206	21,953
2025	-	(7,957)
Thereafter	-	(13,518)
Total	\$ (2,703)	\$ (114,003)



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**NOTE 9 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are with Great West Life & Annuity Insurance Company, International City/County Managers Association Retirement Trust or the State of Washington Department of Retirement Systems deferred compensation program. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Effective January 1, 2020, the District will match employee contributions up to two (2) percent of an employee's base salary. District contributions were \$38,384 and \$0- in 2020 and 2019, respectively.

**NOTE 10 RISK MANAGEMENT**

Mukilteo Water and Wastewater District was a member of Enduris until November 2020. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance, or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the state of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there were 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

\$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

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

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**NOTE 10 RISK MANAGEMENT (CONTINUED)**

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk,” blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber, and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

A board of directors consisting of seven board members governs Enduris. The Pool’s members elect the board and the positions are filled on a rotating basis. The board meets quarterly and is responsible for conducting the business affairs of Enduris.

In the past three years (2020, 2019, and 2018), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

In November, the District became 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 1 through October 31.

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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

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; Deadly Weapon/Active Shooter Response Program, and bonds of various types. Most coverages are on an "occurrence" basis.

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

<b>TYPE OF COVERAGE</b>	<b>MEMBER DEDUCTIBLE</b>	<b>SELF-INSURED RETENTION/GROUP</b>	<b>EXCESS LIMITS</b>
<b>Property Loss:</b>			
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	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
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
<b>Liability:</b>			
Commercial General Liability	\$1,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000	Same as above	\$15,000,000
Employment Practices	\$1,000	Same as above	\$15,000,000
<b>Other:</b>			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

- 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.

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 & 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, 2021, written notice must be in possession of the Pool by April 30, 2021). 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 (2020, 2019, and 2018), 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, 2020 AND 2019**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 11 HEALTH AND WELFARE**

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

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, 2020, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

**MUKILTEO WATER AND WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 11 HEALTH AND WELFARE (CONTINUED)**

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

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

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

**NOTE 12 MAJOR SUPPLIERS**

The District purchased approximately 24% and 22% of its water from the City of Everett (the City) during 2020 and 2019, respectively, and 76% and 78% of its water from Alderwood Water and Wastewater District during 2020 and 2019, respectively. The City also provided treatment for approximately 31% and 31% of the District's wastewater during 2020 and 2019, respectively.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 13 LEASES**

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 115,539
2022	121,316
2023	127,381
2024	19,376
2025	14,179
Thereafter	46,936
Total	<u>\$ 444,727</u>

**NOTE 14 ANNEXATION**

The City of Everett has the contractual right to assume ownership of District assets in areas that have been annexed for at least ten years. Although the City has not indicated it will exercise these rights, it is reasonably possible that future assumptions of assets will occur. As of December 31, 2020, 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 \$26,102 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 2020 and 2019.

**MUKILTEO WATER AND WASTEWATER DISTRICT  
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
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
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
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)**

**Last 10 Fiscal Years\***

**PERS 1**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
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
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

**MUKILTEO WATER AND WASTEWATER DISTRICT  
DEPARTMENTAL STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
YEAR ENDED DECEMBER 31, 2020  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Service Charges:			
Residential	\$ 2,069,893	\$ 4,322,988	\$ 6,392,881
Commercial and Multi-Family	2,060,580	3,790,692	5,851,272
Total Service Charges	4,130,473	8,113,680	12,244,153
Late Charges	18,669	20,427	39,096
Miscellaneous	155,905	170,815	326,720
Total Operating Revenues	4,305,047	8,304,922	12,609,969
<b>OPERATING EXPENSES</b>			
Purchased Water	1,278,944	-	1,278,944
Wastewater Treatment	-	1,905,995	1,905,995
Operation Expenses	580,485	569,995	1,150,480
General and Administrative	1,257,497	1,511,816	2,769,313
Depreciation	812,885	2,575,126	3,388,011
Total Operating Expenses	3,929,811	6,562,932	10,492,743
<b>OPERATING INCOME</b>	375,236	1,741,990	2,117,226
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment Income	41,965	125,940	167,905
Interest on Assessments	-	4,030	4,030
Other Interest	469	-	469
Net Gain (Loss) on Disposal of Assets	(156,911)	(31,591)	(188,502)
Interest and Amortization on Long-Term Debt	(2,172)	(271,810)	(273,982)
Total Nonoperating Revenue (Expense)	(116,649)	(173,431)	(290,080)
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	258,587	1,568,559	1,827,146
Capital Contributions	941,319	827,830	1,769,149
<b>CHANGE IN NET POSITION</b>	1,199,906	2,396,389	3,596,295
Net Position - Beginning of Year	42,440,746	58,246,756	100,687,502
<b>NET POSITION - END OF YEAR</b>	<u>\$ 43,640,652</u>	<u>\$ 60,643,145</u>	<u>\$ 104,283,797</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT  
DEPARTMENTAL STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET POSITION  
YEAR ENDED DECEMBER 31, 2019  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Service Charges:			
Residential	\$ 2,002,469	\$ 4,321,012	\$ 6,323,481
Commercial and Multi-Family	2,182,530	3,754,425	5,936,955
Total Service Charges	4,184,999	8,075,437	12,260,436
Late Charges	47,643	53,710	101,353
Miscellaneous	196,581	144,105	340,686
Total Operating Revenues	4,429,223	8,273,252	12,702,475
<b>OPERATING EXPENSES</b>			
Purchased Water	1,367,800	-	1,367,800
Wastewater Treatment	-	1,647,765	1,647,765
Operation Expenses	466,279	597,693	1,063,972
General and Administrative	1,240,410	1,430,585	2,670,995
Depreciation	810,048	2,618,046	3,428,094
Total Operating Expenses	3,884,537	6,294,089	10,178,626
<b>OPERATING INCOME</b>	544,686	1,979,163	2,523,849
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment Income	224,173	237,905	462,078
Interest on Assessments	-	5,694	5,694
Other Interest	526	-	526
Net Gain (Loss) on Disposal of Assets	443,548	16,878	460,426
Interest and Amortization on Long-Term Debt	(2,828)	(288,732)	(291,560)
Total Nonoperating Revenue (Expense)	665,419	(28,255)	637,164
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	1,210,105	1,950,908	3,161,013
Capital Contributions	190,193	136,111	326,304
<b>CHANGE IN NET POSITION</b>	1,400,298	2,087,019	3,487,317
Net Position - Beginning of Year	41,040,448	56,159,737	97,200,185
<b>NET POSITION - END OF YEAR</b>	<u>\$ 42,440,746</u>	<u>\$ 58,246,756</u>	<u>\$ 100,687,502</u>