



MUKILTEO WATER AND WASTEWATER DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2021 AND 2020

**MUKILTEO WATER AND WASTEWATER DISTRICT
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YEARS ENDED DECEMBER 31, 2021 AND 2020**

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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, 2021 and 2020, and the related statements of revenues, expenses, and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of District management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

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

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

Accountants' Conclusion

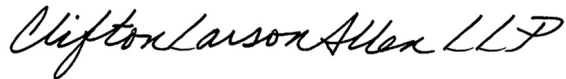
Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it. 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.

Supplementary Information

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



CliftonLarsonAllen LLP

Bellevue, Washington
May 18, 2022

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(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, 2021 and 2020 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, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Capital Assets	\$ 94,935,932	\$ 95,835,232	\$ 94,749,997
Other Assets	27,415,102	25,771,886	25,122,320
Total Assets	<u>122,351,034</u>	<u>121,607,118</u>	<u>119,872,317</u>
Deferred Outflows of Resources	<u>360,084</u>	<u>430,420</u>	<u>457,718</u>
Long-Term Liabilities	12,175,946	13,436,316	15,041,433
Other Liabilities	4,073,219	4,092,360	4,172,156
Total Liabilities	<u>16,249,165</u>	<u>17,528,676</u>	<u>19,213,589</u>
Deferred Inflows of Resources	<u>1,831,425</u>	<u>225,065</u>	<u>428,944</u>
Net Investment in Capital Assets	81,052,750	81,197,873	78,902,242
Restricted Amounts	3,658,025	1,830,853	1,398,971
Unrestricted Amounts	<u>19,919,753</u>	<u>21,255,071</u>	<u>20,386,289</u>
Total Net Position	<u>\$ 104,630,528</u>	<u>\$ 104,283,797</u>	<u>\$ 100,687,502</u>

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Wastewater Service Revenue	\$ 8,413,983	\$ 8,113,680	\$ 8,075,437
Water Service Revenue	4,417,869	4,130,473	4,184,999
Other Wastewater Operating Revenues	101,153	191,242	197,815
Other Water Operating Revenues	220,045	174,574	244,224
Total Operating Revenues	<u>13,153,050</u>	<u>12,609,969</u>	<u>12,702,475</u>
Wastewater Operating Expenses	2,638,256	2,475,990	2,245,458
Water Operating Expenses	1,927,772	1,859,429	1,834,079
General and Administrative Expenses, Wastewater	1,395,358	1,511,816	1,430,585
General and Administrative Expenses, Water	1,058,539	1,257,497	1,240,410
Depreciation, Wastewater	2,571,039	2,575,126	2,618,046
Depreciation, Water	813,928	812,885	810,048
Total Operating Expenses	<u>10,404,892</u>	<u>10,492,743</u>	<u>10,178,626</u>
Operating Income	2,748,158	2,117,226	2,523,849
Nonoperating Revenue (Expense):			
Interest	38,928	172,404	468,298
Gain (Loss) on Disposal of Assets	(2,566,984)	(188,502)	460,426
Interest and Amortization	(263,019)	(273,982)	(291,560)
Income Before Capital Contributions	<u>(42,917)</u>	<u>1,827,146</u>	<u>3,161,013</u>
Capital Contributions	389,648	1,769,149	326,304
Increase in Net Position	<u>346,731</u>	<u>3,596,295</u>	<u>3,487,317</u>
Net Position, January 1	<u>104,283,797</u>	<u>100,687,502</u>	<u>97,200,185</u>
Net Position, December 31	<u>\$ 104,630,528</u>	<u>\$ 104,283,797</u>	<u>\$ 100,687,502</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 decreased in 2021 primarily due to the removal of old assets below the District's new capitalization threshold of \$10,000. Capital assets increased in 2020 due to increases in construction activity, donated systems, and asset purchases.

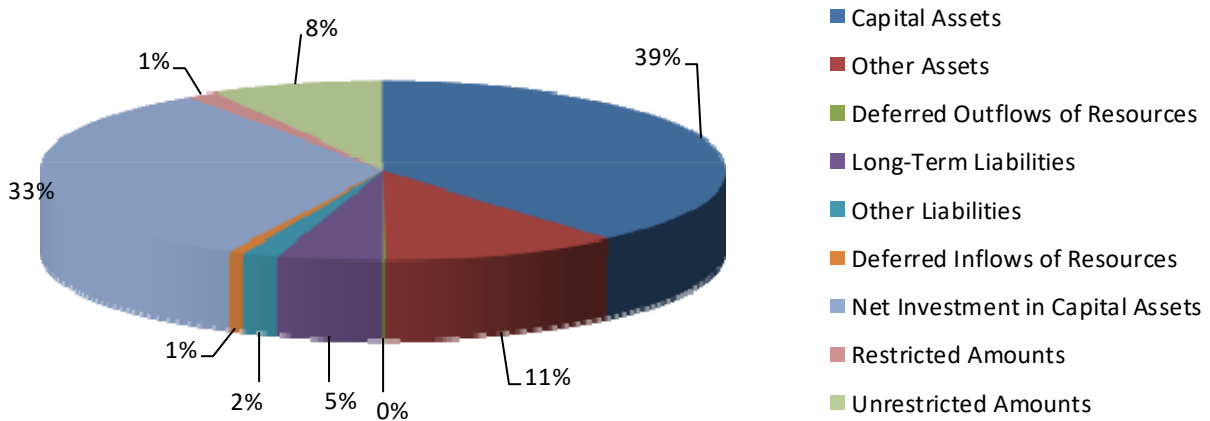
The District is located in Snohomish County, Washington.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

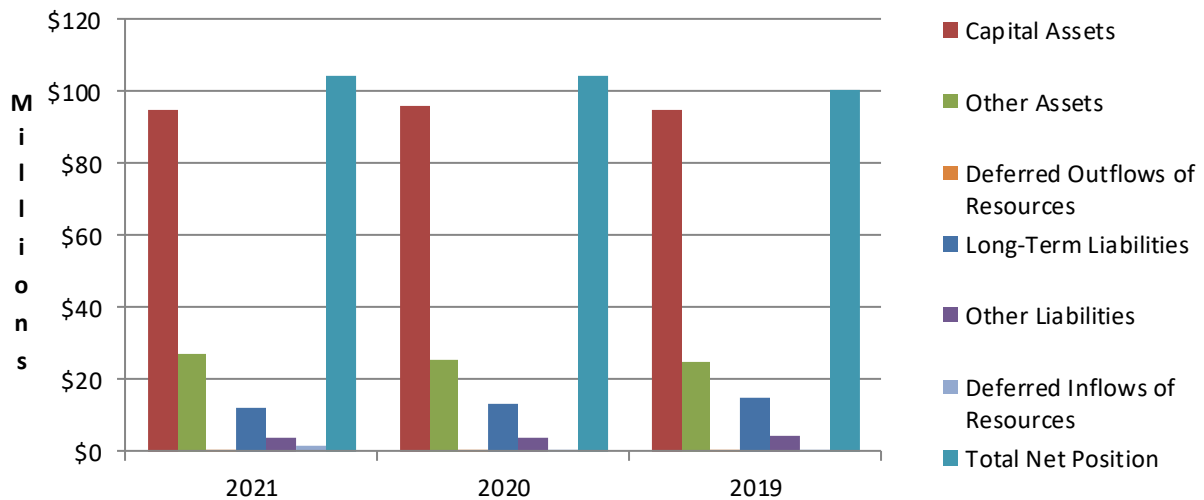
FINANCIAL POSITION (CONTINUED)

The following charts indicate the components of financial position:

2021 STATEMENT OF NET POSITION



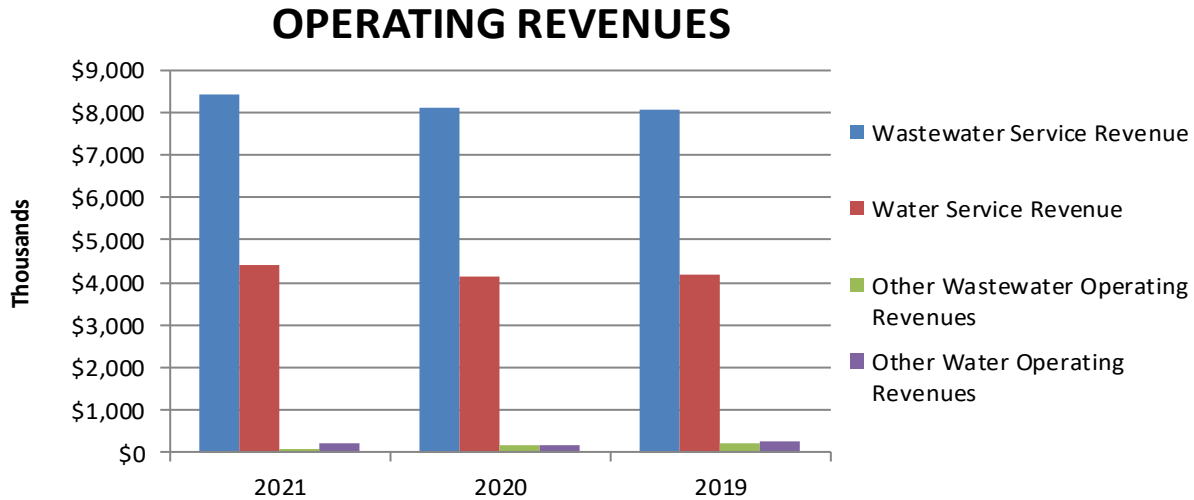
COMPARATIVE STATEMENT OF NET POSITION



**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(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.



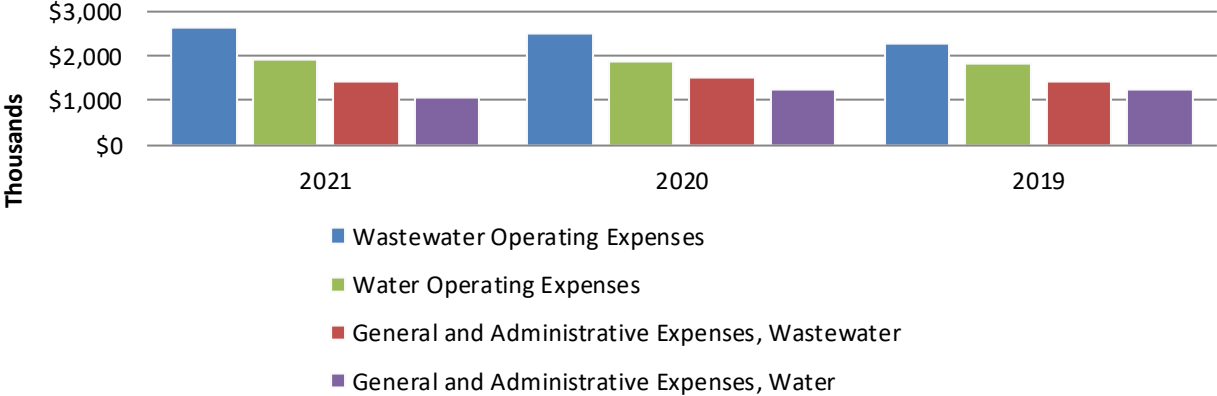
In April of 2020, Washington State Governor Jay Inslee placed a moratorium on water shut-offs and late fees due to the COVID-19 pandemic, which led to lower revenue from fees. Water revenue also decreased slightly in 2020 due to reduced water consumption of Commercial accounts during the COVID-19 pandemic. This reduced Commercial account revenue and reduced fees are directly related to the COVID-19 pandemic and is not an on-going occurrence. Water revenue increased in 2021 due to a combination of increased consumption as the impacts of COVID-19 diminished and increased water rates.

The increase in wastewater revenues in 2021 was due to increased water consumption for commercial accounts and rate increases. Wastewater revenues in 2020 were comparable to 2019.

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

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

OPERATING EXPENSES



**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

RESULTS OF OPERATIONS (CONTINUED)

Wastewater operating expenses increased in 2021 and 2020 primarily due to rate increases from the City of Everett for wastewater treatment costs. Water operating expenses increased in 2021 due to increased consumption as the impacts of COVID-19 decreased and rate increases. Water operating expenses in 2020 were comparable to 2019.

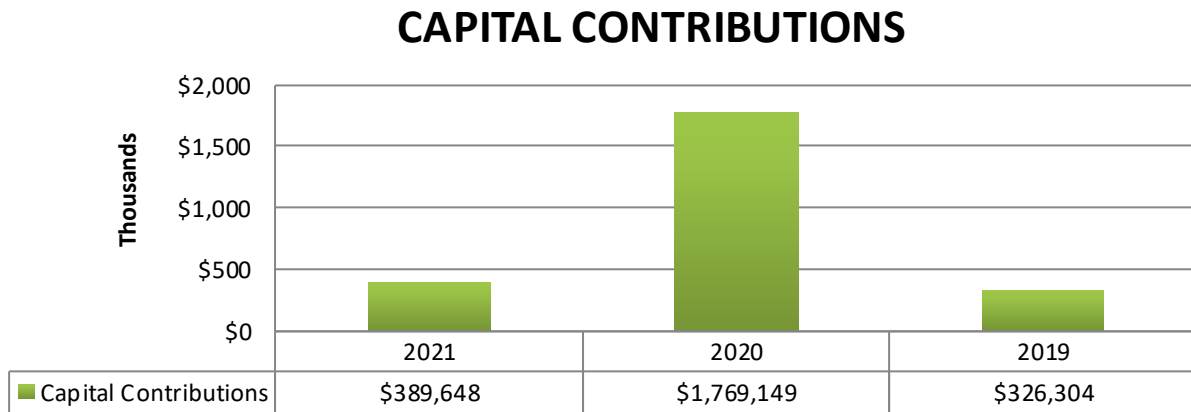
Wastewater and water general and administrative expenses decreased in 2021 primarily due to decreases in pension expense, this decrease is largely due to higher than expected earnings on pension plan investments, which led to lower pension rates from the state. Wastewater general and administrative expenses 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. Water general and administrative expenses in 2020 were comparable to 2019.

The District operated at a profit in 2021, 2020, and 2019. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

CAPITAL CONTRIBUTIONS

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

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



The contributions are indicative of the growth of the District and include donated systems totaling \$99,447, \$537,060, and \$33,980 for the years ended December 31, 2021, 2020, and 2019, respectively. The large contributions in 2020 were primarily from the Washington State Ferry Terminal project which included approximately \$525,000 in donated assets and \$625,000 in connection charges.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets decreased in 2021 primarily due to the removal of old assets below the District's current capitalization threshold. Capital assets increased in 2020 due to increases in construction activity, donated systems, and asset purchases.

Significant capital asset additions included the following:

<u>2021</u>		<u>2020</u>	
Old Town SR525 Crossing WSI 2022	\$ 96,841	Possession View Water Main	\$ 327,972
8th/9th/10th St Water Main	888,217	8th/9th/10th St Water Main	51,493
LS 9 Replacement	1,030,869	LS 9 Replacement	1,666,348
LS 5 Force Main Replacement	772,248	LS 5 Force Main Replacement	110,887
LS 5 Replacement	946,796	LS 5 Replacement	124,910
WWTF Lab Bldg Replacement	796,414	WWTF Lab Bldg Replacement	1,861,264
WWTF Dewatering Upgrade	172,637	Donated Systems	537,060
Lateral Launcher System	85,334		
WWTF Misc. SCADA Upgrades	72,383		
Donated Systems	99,447		

* LS stands for Lift Station and WWTF stands for Wastewater Treatment Plant.

The decrease in long-term liabilities in 2021 was due to principal payments made by the District in excess of new borrowings and decreases in pension liabilities primarily due to differences between projected and actual earning on pension plan investments in the underlying plans. The decrease in long-term liabilities in 2020 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 detailed activity of capital assets and long-term debt.

As of December 31, 2021, the District has \$17,693,351 of cash and investments set aside in capital accounts of which \$1,249,975 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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

ADDITIONAL COMMENTS

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

The City of Everett has the contractual right to assume ownership of District assets in areas located within the City of Everett's Urban Growth Area (UGA) that have been annexed for over ten years. See Note 14 in the financial statements for more details.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

ASSETS	2021	2020
CURRENT ASSETS		
Unrestricted:		
Cash	\$ 2,238,929	\$ 1,488,157
Investments	19,477,221	20,506,848
Accounts Receivable	1,474,670	1,393,862
Contract Receivable - Current Portion	5,843	5,843
Interest Receivable	1,131	6,214
Inventory	293,313	298,149
Prepaid Expenses	216,517	200,650
Total Unrestricted	23,707,624	23,899,723
Restricted:		
Cash	37,767	26,102
Investments	1,840,931	1,767,451
Interest Receivable	3,865	3,125
Assessments Receivable - Current Portion	25,193	23,061
Total Restricted	1,907,756	1,819,739
Total Current Assets	25,615,380	25,719,462
NONCURRENT ASSETS		
Unrestricted:		
Contract Receivable, Less Current Portion	11,686	17,528
Restricted:		
Assessments Receivable, Less Current Portion	25,193	34,896
Net Pension Asset	1,762,843	-
	1,788,036	34,896
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,679,825	1,746,769
Construction in Progress	1,420,866	4,451,935
Capital Assets Being Depreciated:		
Plant in Service	144,345,281	142,182,709
Less: Accumulated Depreciation	(52,510,040)	(52,546,181)
Net Capital Assets	94,935,932	95,835,232
Total Noncurrent Assets	96,735,654	95,887,656
Total Assets	122,351,034	121,607,118
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding of Debt	143,695	189,847
Deferred Outflows Related to Pensions	216,389	240,573
Total Deferred Outflows of Resources	360,084	430,420
Total Assets and Deferred Outflows of Resources	\$ 122,711,118	\$ 122,037,538

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

LIABILITIES	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,741,891	\$ 1,754,908
Accrued Salaries and Benefits	56,594	58,045
Compensated Absences	248,472	317,642
Customer Deposits	64,500	64,500
Developer Deposits	22,568	84,151
Retainage Payable	-	13,144
Accrued Interest	80,158	77,009
Long-Term Debt - Current Maturities	1,821,269	1,699,179
Total Payable from Unrestricted Assets	<u>4,035,452</u>	<u>4,068,578</u>
Payable from Restricted Assets:		
Accounts Payable	37,767	23,782
Total Payable from Restricted Assets	<u>37,767</u>	<u>23,782</u>
Total Current Liabilities	4,073,219	4,092,360
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Maturities	12,007,663	12,721,213
Net Pension Liability	168,283	715,103
Total Noncurrent Liabilities	<u>12,175,946</u>	<u>13,436,316</u>
Total Liabilities	16,249,165	17,528,676
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	1,831,425	225,065
Total Liabilities and Deferred Inflows of Resources	18,080,590	17,753,741
NET POSITION		
Net Investment in Capital Assets	81,052,750	81,197,873
Restricted for Debt Service	1,895,182	1,828,533
Restricted for Pensions	1,762,843	-
Restricted for Sno-King Coalition	-	2,320
Unrestricted	19,919,753	21,255,071
Total Net Position	<u>104,630,528</u>	<u>104,283,797</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 122,711,118</u>	<u>\$ 122,037,538</u>

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Service Charges:		
Residential	\$ 6,525,667	\$ 6,392,881
Commercial and Multi-Family	6,306,185	5,851,272
Total Service Charges	<u>12,831,852</u>	<u>12,244,153</u>
Late Charges	40,711	39,096
Miscellaneous	280,487	326,720
Total Operating Revenues	<u>13,153,050</u>	<u>12,609,969</u>
OPERATING EXPENSES		
Purchased Water	1,403,948	1,278,944
Wastewater Treatment	2,021,570	1,905,995
Operation Expenses	1,140,510	1,150,480
General and Administrative	2,453,897	2,769,313
Depreciation	3,384,967	3,388,011
Total Operating Expenses	<u>10,404,892</u>	<u>10,492,743</u>
OPERATING INCOME	2,748,158	2,117,226
NONOPERATING REVENUES (EXPENSES)		
Investment Income	36,706	167,905
Interest on Assessments	1,871	4,030
Other Interest	351	469
Net Gain (Loss) on Disposal of Assets	(2,566,984)	(188,502)
Interest and Amortization on Long-Term Debt	(263,019)	(273,982)
Total Nonoperating Revenue (Expense)	<u>(2,791,075)</u>	<u>(290,080)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(42,917)	1,827,146
Capital Contributions	<u>389,648</u>	<u>1,769,149</u>
CHANGE IN NET POSITION	346,731	3,596,295
Net Position - Beginning of Year	<u>104,283,797</u>	<u>100,687,502</u>
NET POSITION - END OF YEAR	<u><u>\$ 104,630,528</u></u>	<u><u>\$ 104,283,797</u></u>

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 13,010,659	\$ 13,066,633
Cash Paid to Vendors	(4,200,113)	(4,447,295)
Cash Paid to and for Employees and Commissioners	(3,383,890)	(3,349,188)
Net Cash Provided by Operating Activities	5,426,656	5,270,150
 CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions	290,201	1,232,089
Interest Received on Assessments	1,130	6,279
Collections on ULID Assessments	7,571	49,942
Proceeds from Sale of Assets	20,844	18,877
Proceeds from Issuance of Debt	1,198,069	207,545
Principal Paid on Debt	(1,728,554)	(1,651,437)
Interest Paid on Long-Term Debt	(274,693)	(296,183)
Expenditures for Plant in Service, Construction, and Preliminary Surveys and Investigations	(5,182,917)	(3,893,994)
Net Cash Provided (Used) by Capital Financing Activities	(5,668,349)	(4,326,882)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sale of Investments	13,459,560	18,755,773
Purchase of Investments	(12,503,413)	(18,950,682)
Collections on City of Everett Contract	5,842	5,843
Interest Received on Investments and City of Everett Contract	42,141	248,759
Net Cash Provided (Used) by Investing Activities	1,004,130	59,693
 NET INCREASE (DECREASE) IN CASH	762,437	1,002,961
 Cash - Beginning of Year	1,514,259	511,298
 CASH - END OF YEAR	\$ 2,276,696	\$ 1,514,259
 Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash - Unrestricted	\$ 2,238,929	\$ 1,488,157
Cash - Restricted	37,767	26,102
Total	\$ 2,276,696	\$ 1,514,259

See accompanying Notes to Financial Statements.

**MUKILTEO WATER AND WASTEWATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,748,158	\$ 2,117,226
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,384,967	3,388,011
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	(80,808)	399,686
Inventory	4,836	20
Prepaid Expenses	(15,867)	10,179
Net Pension Asset	(1,762,843)	-
Deferred Outflows Related to Pensions	24,184	(24,791)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Deposits	135,110	(333,877)
Accrued Salaries and Compensated Absences	(70,621)	(58,375)
Net Pension Liability	(546,820)	(24,050)
Deferred Inflows Related to Pensions	1,606,360	(203,879)
Net Cash Provided by Operating Activities	\$ 5,426,656	\$ 5,270,150
 SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	\$ 99,447	\$ 537,060

See accompanying Notes to Financial Statements.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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.

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 and the State of Washington Treasurer's Local Government Investment Pool.

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.

Accounts Receivable

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

Inventory

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

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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

Pensions

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

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

Deferred Outflows/Inflows of Resources

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

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of 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.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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

Net Position (Continued)

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

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

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

Revenues and Expenses

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

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.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2021 and 2020 was \$1,000 and \$1,000, respectively. The District's bank balances as of December 31, 2021 and 2020 were \$2,275,696 and \$1,513,259, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

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

As of December 31, the District had the following investments all measured at amortized cost:

	2021	2020
Money Market Accounts	\$ 1,769,272	\$ 1,767,260
Certificates of Deposit	3,524,065	3,760,146
Local Government Investment Pool	16,024,815	16,746,893
Total	\$ 21,318,152	\$ 22,274,299

Investments in Local Government Investment Pool

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

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Interest Rate Risk

Interest rate risk is the risk the District may face should interest rate variances affect the fair value of investments. The District has implemented a formal investment policy limiting its exposure to rising interest rates. Securities purchased must have a final maturity of no longer than five years from the date of purchase and the weighted average maturity of the District's portfolio must not exceed two years.

The weighted-average maturity of the District's certificates of deposit as of December 31, 2021 and 2020 was .09 years and .65 years, respectively.

Custodial Credit Risk

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

Concentration of Credit Risk

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

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

*Calculated at Time of Purchase

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	<u>2021</u>	<u>2020</u>
Commencement Bank	\$ 1,993,570	\$ 1,980,203
East West Bank	1,530,495	1,523,932

NOTE 3 RESTRICTED ASSETS

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

	<u>Sno King Coalition Assets</u>	<u>Revenue and Refunding Bond Funds</u>	<u>Revenue Bond and DOE Loan Reserve Funds</u>	<u>PERS 2/3</u>	<u>Total</u>
<u>2021</u>					
Current Restricted Assets:					
Cash	\$ 37,767	\$ -	\$ -	\$ -	\$ 37,767
Investments	-	923,931	917,000	-	1,840,931
Interest Receivable	-	3,865	-	-	3,865
Assessments Receivable	-	25,193	-	-	25,193
Total	<u>37,767</u>	<u>952,989</u>	<u>917,000</u>	<u>-</u>	<u>1,907,756</u>
Noncurrent Restricted Assets:					
Assessments Receivable	-	25,193	-	-	25,193
Net Pension Asset	-	-	-	1,762,843	1,762,843
Total	<u>\$ 37,767</u>	<u>\$ 978,182</u>	<u>\$ 917,000</u>	<u>\$ 1,762,843</u>	<u>\$ 3,695,792</u>
<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>-</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>\$ -</u>	<u>\$ 1,854,635</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, 2021 and 2020 was \$881,674 and \$904,174, respectively. The debt service and reserve accounts are fully funded.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 4 CAPITAL ASSETS (CONTINUED)

	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
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 5 LONG-TERM DEBT

Long-term debt outstanding at December 31 2021 and 2020 consisted of revenue bonds and direct borrowings and direct placements as follows:

<u>Description</u>	<u>2021</u>	<u>2020</u>
Revenue and Refunding Bonds:		
\$8,655,000 issued September 10, 2008 for construction and refunding, due serially through the year 2023 with interest payable semi-annually at 4.25 to 4.30 annual percentage rate.	\$ 50,000	\$ 75,000
\$3,420,000 issued March 27, 2012 for construction, due serially through the year 2031, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate.	1,915,000	2,075,000
\$4,885,000 issued May 21, 2015 for refunding, due serially through the year 2028, with interest payable semi-annually at 4.00 annual percentage rate.	<u>3,540,000</u>	<u>3,975,000</u>
Total Revenue and Refunding Bonds	5,505,000	6,125,000
Direct Borrowings and Direct Placements:		
All issued for utility construction and secured by the revenue of the system.		
\$7,000,000 loan: Payable \$371,875 annually through the year 2026, plus interest at .5 annual percentage rate.	1,859,375	2,231,250
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	320,175	373,538
\$1,000,000 loan: Payable \$53,363 annually through the year 2027, plus interest at .5 annual percentage rate.	320,175	373,538
\$6,739,575 loan: Payable \$352,199 annually through the year 2028, plus interest at .5 annual percentage rate.	2,465,390	2,817,589

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

NOTE 5 LONG-TERM DEBT (CONTINUED)

<u>Description (Continued)</u>	<u>2021</u>	<u>2020</u>
Direct Borrowings and Direct Placements (Continued):		
\$1,950,000 authorized, \$1,430,671 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$88,495 annually through the year 2032, plus interest at .5 annual percentage rate.	\$ 973,449	\$ 1,053,885
\$888,000 authorized, \$691,061 drawn to December 31, 2020. Based on draws to December 31, 2021, payable \$37,843 annually through the year 2032, plus interest at .25 annual percentage rate.	416,277	454,121
\$407,531 authorized, \$274,618 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$72,501 annually through the year 2024, plus interest at .79 annual percentage rate.	217,502	117,269
\$2,037,658 authorized, \$1,032,663 drawn to December 31, 2021. Based on draws to December 31, 2021, payable \$57,319 annually through the year 2039, plus interest at 1.58 annual percentage rate.	1,031,759	-
Washington State Department of Ecology Loans		
\$1,145,247 loan: Payable \$33,783 semi-annually through June 2028, including interest at 1.5 annual percentage rate.	416,897	477,506
Drinking Water State Revolving Loan:		
\$622,968 loan: Payable \$32,788 annually through the year 2024, plus interest at 1.50 annual percentage rate.	98,363	131,151
Total Direct Borrowings and Direct Placements	<u>8,119,362</u>	<u>8,029,847</u>
Total Long-Term Debt	13,624,362	14,154,847
Less: Current Maturities	(1,821,269)	(1,699,179)
Add: Unamortized Bond (Discounts) Premiums	<u>204,570</u>	<u>265,545</u>
Total	<u>\$ 12,007,663</u>	<u>\$ 12,721,213</u>

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

NOTE 5 LONG-TERM DEBT (CONTINUED)

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2021):

Year Ending December 31,	Revenue and Refunding Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2022	\$ 640,000	\$ 211,587	\$ 1,181,270	\$ 56,269	\$ 2,089,126
2023	660,000	187,574	1,182,199	48,681	2,078,454
2024	660,000	162,799	1,183,143	41,076	2,047,018
2025	685,000	138,149	1,078,811	33,458	1,935,418
2025	710,000	112,549	1,079,783	26,889	1,929,221
2027-2031	2,150,000	195,200	1,829,260	67,875	4,242,335
2032-2036	-	-	412,939	27,707	440,646
2037-2039	-	-	171,957	5,434	177,391
Total	<u>\$ 5,505,000</u>	<u>\$ 1,007,858</u>	<u>\$ 8,119,362</u>	<u>\$ 307,389</u>	<u>\$ 14,939,609</u>

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

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

NOTE 6 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2020</u>					
Direct 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 PERS 1	557,423	-	(71,956)	485,467	-
Net Pension Liability PERS 2/3	181,730	47,906	-	229,636	-
Total	<u>\$ 17,046,869</u>	<u>\$ 580,809</u>	<u>\$ (2,174,541)</u>	<u>\$ 15,453,137</u>	<u>\$ 2,016,821</u>

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, 2021, the District's share is estimated to be as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 257,200
2023	184,800
2024	168,000
2025	20,000
2026	200,000
Thereafter	3,703,200
Total	<u>\$ 4,533,200</u>

As of December 31, 2021, the District is obligated under construction contracts totaling \$4,867,629 of which \$3,617,654 has been expended.

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NOTE 8 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2021 and 2020:

Aggregate Pension Amounts – All Plans		
	2021	2020
Pension Liabilities	\$ 168,283	\$ 715,103
Pension Assets	(1,762,843)	-
Deferred Outflows of Resources	216,389	240,573
Deferred Inflows of Resources	1,831,425	225,065
Pension Expense	(428,912)	13,211

State Sponsored Pension Plans

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

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

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

Or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees Retirement System (PERS)

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

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NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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 five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and 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 five years of eligible service. The plan was closed to new entrants on September 30, 1977.

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

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

PERS Plan 1 Actual Contribution Rates	Employer	Employee
<u>2021</u>		
January through June		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	12.97 %	6.00 %
July through December		
PERS Plan 1	10.07 %	6.00 %
Administrative Fee	0.18	
Total	10.25 %	6.00 %
<u>2020</u>		
January through August		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	12.86 %	6.00 %
September through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	12.97 %	6.00 %

The District’s actual contributions to the plan were \$93,214 and \$100,271 for the years ended December 31, 2021 and 2020, respectively.

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NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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

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

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

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

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

Contributions – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. 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>2021</u>			
January through June			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87		
Administrative Fee	0.18		
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>
<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>	<u>Varies</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>Varies</u>

The District's actual contributions to the plan were \$154,993 and \$165,661 for the years ended December 31, 2021 and 2020, respectively.

Actuarial Assumptions

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

The 2020 total pension liability/(asset) (TPL/A) 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*.

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NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional 2021 assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. Additional 2020 assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021 and June 30, 2020. 2021 Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, and 2020 Plan liabilities/(assets) were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions between the 2021 and 2020 valuations. There were changes in methods between the 2021 and 2020 valuations.

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

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NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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.
- 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.
- 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 for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability/(asset) 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/(asset).

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 future times.

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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, 2021 and 2020:

<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/(Asset)

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 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>2021</u>			
PERS 1	\$ 286,679	\$ 168,283	\$ 65,029
PERS 2/3	(502,200)	(1,762,843)	(2,800,983)
<u>2020</u>			
PERS 1	\$ 608,075	\$ 485,467	\$ 378,540
PERS 2/3	1,428,860	229,636	(757,924)

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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, 2021 and 2020, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2021 and 2020):

	<u>2021</u>	<u>2020</u>
PERS 1	\$ 168,283	\$ 485,467
PERS 2/3	(1,762,843)	229,636
Total	<u>\$ (1,594,560)</u>	<u>\$ 715,103</u>

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

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

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

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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, 2021 and 2020, the District recognized pension expense as follows:

	<u>2021</u>	<u>2020</u>
PERS 1	\$ (30,506)	\$ (6,838)
PERS 2/3	(398,406)	20,049
Total	<u>\$ (428,912)</u>	<u>\$ 13,211</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:

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

MUKILTEO WATER AND WASTEWATER DISTRICT
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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>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	\$ 50,074	\$ 2,703
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	\$ 190,499	\$ 222,362
Total All Plans	\$ 240,573	\$ 225,065

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

<u>Year Ending December 31,</u>	PERS 1	PERS 2/3
2022	\$ (49,467)	\$ (403,925)
2023	(45,330)	(377,455)
2024	(42,861)	(359,655)
2025	(49,079)	(389,148)
2026	-	(8,175)
Thereafter	-	(87)
Total	\$ (186,737)	\$ (1,538,445)

MUKILTEO WATER AND WASTEWATER DISTRICT
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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 \$38,515 and \$38,384 in 2021 and 2020, respectively.

NOTE 10 RISK MANAGEMENT

The Mukilteo Water and Wastewater District is a member of the Water and Sewer Risk Management Pool (the 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 72 members. The Pool's fiscal year is November 1 through October 31.

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

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NOTE 10 RISK MANAGEMENT (CONTINUED)

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$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	
Liability:			
Commercial General Liability	\$1,000	\$500,000	\$10,000,000
Auto Liability	\$1,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000	Same as above	\$10,000,000
Employment Practices	\$1,000	Same as above	\$10,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

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

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NOTE 10 RISK MANAGEMENT (CONTINUED)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & 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, 2022, written notice must be in possession of the Pool by April 30, 2022). 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 (2021, 2020, and 2019), 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
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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, 2021, 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. Noncity 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 Intermediary Insurance Services. The aggregate policy is for 200% of expected medical claims.

MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 11 HEALTH AND WELFARE (CONTINUED)

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

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

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the state auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ended 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 23% and 24% of its water from the City of Everett (the City) during 2021 and 2020, respectively, and 77% and 76% of its water from Alderwood Water and Wastewater District during 2021 and 2020, respectively. The City also provided treatment for approximately 32% and 31% of the District's wastewater during 2021 and 2020, respectively.

**MUKILTEO WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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>
2022	\$ 121,316
2023	127,381
2024	19,376
2025	14,179
2026	14,888
Thereafter	32,047
Total	<u>\$ 329,187</u>

NOTE 14 ANNEXATION

The City of Everett has the contractual right to assume ownership of District assets in areas located within the City of Everett's Urban Growth Area (UGA) that have been annexed for at least 10 years. Although the City has not indicated it will exercise these rights, it is reasonably possible that future assumptions of assets will occur. As of December 31, 2021, 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 \$37,767 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 2021 and 2020.

NOTE 16 COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and nonessential activities. As of the end of 2021, it appears that the COVID-19 pandemic has had relatively minor impacts to the District's operations, ability to service the public, and finances.

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

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.013780 %	\$ 168,283	\$ 2,116,572	7.95 %	88.74 %
2020	0.013751	485,467	2,444,097	19.86	68.64
2019	0.014496	557,423	2,073,459	26.88	67.12
2018	0.014042	627,129	1,867,821	33.58	63.22
2017	0.013762	653,005	1,738,179	37.57	61.24
2016	0.014048	754,470	1,674,792	45.05	57.03
2015	0.015071	788,372	1,595,383	49.42	59.10
2014	0.015757	793,790	1,688,000	47.03	61.09
2013	0.016236	948,727	1,711,147	55.44	

Notes to Schedule:

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

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

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.017696 %	\$ (1,762,843)	\$ 2,116,572	(83.29)%	120.29 %
2020	0.017955	229,636	2,444,097	9.40	97.22
2019	0.018709	181,730	2,073,459	8.76	97.77
2018	0.018074	308,600	1,867,821	16.52	95.77
2017	0.017701	615,038	1,738,179	35.38	90.97
2016	0.018013	906,964	1,674,792	54.15	85.82
2015	0.019463	695,412	1,595,383	43.59	89.20
2014	0.019533	394,823	1,688,000	23.39	93.29
2013	0.017002	726,004	1,549,198	46.86	

Notes to Schedule:

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

**MUKILTEO WATER AND WASTEWATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 93,214	\$ (93,214)	\$ -	\$ 2,162,150	4.31 %
2020	100,271	(100,271)	-	2,091,678	4.79
2019	102,934	(102,934)	-	2,078,349	4.95
2018	98,696	(98,696)	-	1,949,884	5.06
2017	88,230	(88,230)	-	1,802,035	4.90
2016	81,199	(81,199)	-	1,702,283	4.77
2015	71,376	(71,376)	-	1,634,782	4.37
2014	65,352	(65,352)	-	1,617,998	4.04
2013	59,548	(59,548)	-	1,737,072	3.43

Notes to Schedule:

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

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

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2021	\$ 154,993	\$ (154,993)	\$ -	\$ 2,162,150	7.17 %
2020	165,661	(165,661)	-	2,091,678	7.92
2019	160,276	(160,276)	-	2,078,349	7.71
2018	146,231	(146,231)	-	1,949,884	7.50
2017	123,283	(123,283)	-	1,802,035	6.84
2016	106,052	(106,052)	-	1,702,283	6.23
2015	91,570	(91,570)	-	1,634,782	5.60
2014	80,851	(80,851)	-	1,617,998	5.00
2013	79,024	(79,024)	-	1,639,794	4.82

Notes to Schedule:

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

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

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Service Charges:			
Residential	\$ 2,179,907	\$ 4,345,760	\$ 6,525,667
Commercial and Multi-Family	2,237,962	4,068,223	6,306,185
Total Service Charges	<u>4,417,869</u>	<u>8,413,983</u>	<u>12,831,852</u>
Late Charges	19,098	21,613	40,711
Miscellaneous	200,947	79,540	280,487
Total Operating Revenues	<u>4,637,914</u>	<u>8,515,136</u>	<u>13,153,050</u>
OPERATING EXPENSES			
Purchased Water	1,403,948	-	1,403,948
Wastewater Treatment	-	2,021,570	2,021,570
Operation Expenses	523,824	616,686	1,140,510
General and Administrative	1,058,539	1,395,358	2,453,897
Depreciation	813,928	2,571,039	3,384,967
Total Operating Expenses	<u>3,800,239</u>	<u>6,604,653</u>	<u>10,404,892</u>
OPERATING INCOME	837,675	1,910,483	2,748,158
NONOPERATING REVENUES (EXPENSES)			
Investment Income	12,116	24,590	36,706
Interest on Assessments	-	1,871	1,871
Other Interest	351	-	351
Net Gain (Loss) on Disposal of Assets	(2,375,395)	(191,589)	(2,566,984)
Interest and Amortization on Long-Term Debt	(2,008)	(261,011)	(263,019)
Total Nonoperating Revenue (Expense)	<u>(2,364,936)</u>	<u>(426,139)</u>	<u>(2,791,075)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(1,527,261)	1,484,344	(42,917)
Capital Contributions	182,603	207,045	389,648
CHANGE IN NET POSITION	(1,344,658)	1,691,389	346,731
Net Position - Beginning of Year	<u>43,640,652</u>	<u>60,643,145</u>	<u>104,283,797</u>
NET POSITION - END OF YEAR	<u>\$ 42,295,994</u>	<u>\$ 62,334,534</u>	<u>\$ 104,630,528</u>

**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>
OPERATING REVENUES			
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	<u>4,130,473</u>	<u>8,113,680</u>	<u>12,244,153</u>
Late Charges	18,669	20,427	39,096
Miscellaneous	155,905	170,815	326,720
Total Operating Revenues	<u>4,305,047</u>	<u>8,304,922</u>	<u>12,609,969</u>
OPERATING EXPENSES			
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	<u>3,929,811</u>	<u>6,562,932</u>	<u>10,492,743</u>
OPERATING INCOME	375,236	1,741,990	2,117,226
NONOPERATING REVENUES (EXPENSES)			
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)	<u>(116,649)</u>	<u>(173,431)</u>	<u>(290,080)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	258,587	1,568,559	1,827,146
Capital Contributions	941,319	827,830	1,769,149
CHANGE IN NET POSITION	1,199,906	2,396,389	3,596,295
Net Position - Beginning of Year	<u>42,440,746</u>	<u>58,246,756</u>	<u>100,687,502</u>
NET POSITION - END OF YEAR	<u>\$ 43,640,652</u>	<u>\$ 60,643,145</u>	<u>\$ 104,283,797</u>

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