



Office of the Washington State Auditor  
Pat McCarthy

## Financial Statements Audit Report

# North City Water District

For the period January 1, 2020 through December 31, 2020

*Published February 7, 2022*

Report No. 1029867



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

February 7, 2022

Board of Commissioners  
North City Water District  
Shoreline, Washington

**Report on Financial Statements**

Please find attached our report on the North City Water District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### **North City Water District January 1, 2020 through December 31, 2020**

Board of Commissioners  
North City Water District  
Shoreline, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North City Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 1, 2022.

As discussed in Note 10 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 10.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

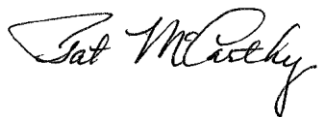
## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

February 1, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **North City Water District January 1, 2020 through December 31, 2020**

Board of Commissioners  
North City Water District  
Shoreline, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the North City Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North City Water District, as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 10 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 10. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2022 on our consideration of the District's internal control over financial reporting

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

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

Pat McCarthy, State Auditor

Olympia, WA

February 1, 2022



## **FINANCIAL SECTION**

### **North City Water District January 1, 2020 through December 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020

Schedule of Changes in Total OPEB Liability and Related Ratios – 2020

North City Water District  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2020

**Overview of the Financial Statements**

The management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of District-wide financial statements and notes to the financial statements. The District began implementing the Governmental Accounting Standards Board (GASB) Statement 34 model of financial reporting in 2003. This statement establishes standards for external financial reporting for all state and local government entities.

The District's financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on the District's assets, liabilities, deferred inflows and outflow, with the difference between the two reported as net position per GASB 34. Increases or decreases in net position may serve as an indicator of whether the financial position of the District is improving or deteriorating. Assets are designated as either Unrestricted or Restricted based upon their purpose. Assets whose use is subject to constraints that are externally imposed, such as those imposed by creditors through debt covenants, are defined as Restricted Assets. Funds without a designated purpose are called Unrestricted.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the District's position changed during the most recent fiscal year. All changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. depreciation as well as earned but unused vacation leave).

The *Statement of Cash Flows* accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital and related financing activities and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information that is essential to the full understanding of the data provided in the District's financial statements.

**Financial Analysis**

**Condensed Comparative Statement of Net Position**

	2020	2019	2018	2020-2019 Change
Current and Other Assets	\$ 10,229,503	\$ 12,755,912	\$ 13,902,034	\$ (2,526,409)
Capital Assets	<u>46,422,061</u>	<u>42,532,271</u>	<u>40,636,821</u>	<u>3,889,790</u>
Total Assets	56,651,564	55,288,183	54,538,855	1,363,381
Deferred Outflows of Resources	132,472	117,631	103,182	14,841
Long-term Liabilities	17,483,701	17,917,854	18,652,850	(434,153)
Other Liabilities	<u>2,976,280</u>	<u>2,980,801</u>	<u>2,782,276</u>	<u>(4,521)</u>
Total Liabilities	20,459,981	20,898,655	21,435,126	(438,674)
Deferred Inflows of Resources	153,064	276,300	253,772	(123,236)
Invested in Capital Assets	30,366,110	25,879,457	26,149,781	4,486,653
Restricted	404,394	228,243	316,402	176,151
Unrestricted	<u>5,400,487</u>	<u>8,123,159</u>	<u>6,486,956</u>	<u>(2,722,672)</u>
Total Net Position	<u>\$ 36,170,991</u>	<u>\$ 34,230,859</u>	<u>\$ 32,953,139</u>	<u>\$ 1,940,132</u>

The overall financial condition of the District remains strong with an increase in net position of \$1,940,132 in 2020. The increase is due to an increase of \$1,378,222 in Total Assets and Deferred Outflows, net of a decrease in Total Liabilities and Deferred Inflows of \$561,910. The increase in Total Assets is due to an excess of cash operating revenues over cash operating expenses. This excess was used to fund the capital costs related to purchasing or constructing District assets and for reducing debt principal. Deferred Outflows of Resources of \$132,472 increased by \$14,841 (see Note 6 for more information on GASB 68 and Note 9 for GASB 75). Total Liabilities decreased by \$438,674 primarily driven by a reduction in indebtedness with the payment of current year maturities (see Note 5), offset by the WSEA deposits. Deferred Inflows decreased by \$123,236 because of the reporting requirements of GASB 68 (see NOTE 6 for more information on GASB 68).

The amount invested (or equity) in capital assets of \$30,366,110 is the net book value of all District capital assets of \$46,422,061 less the amount funded with outstanding debt of \$16,055,951 Please refer to Note 3 for more information regarding the composition of capital assets and Note 5 for more information about the Districts debt. The restricted position of \$404,394 is the amount set aside to make bond payments and for the payment of retainage held under construction contracts. The unrestricted balance of \$5,400,487 represents the assets available for the future use in providing utility service.

#### Condensed Comparative Statement of Revenues and Expenses and Changes in Net Position

	2020	2019	2018	2020-2019 Change
Water Service	\$ 7,223,801	\$ 6,987,405	\$ 6,832,672	\$ 236,396
Other Operating Revenue	482,685	393,597	408,724	89,088
Other Non-Operating Revenue	<u>170,234</u>	<u>421,809</u>	<u>192,851</u>	<u>(251,575)</u>
Total Revenues	7,876,720	7,802,811	7,434,247	73,909
Operating Expenses	6,690,736	6,365,728	6,202,413	325,008
Non-Operating Expenses	<u>199,007</u>	<u>294,628</u>	<u>414,170</u>	<u>(95,621)</u>
Total Expenses	<u>6,889,743</u>	<u>6,660,356</u>	<u>6,616,583</u>	<u>229,387</u>
Excess before Contributions	986,977	1,142,455	817,664	(155,478)
Capital Contributions	<u>953,155</u>	<u>135,265</u>	<u>725,174</u>	<u>817,890</u>
Change in Net Position	1,940,132	1,277,720	1,542,838	662,412
Beginning Net Position	34,230,859	32,953,139	32,014,417	1,277,720
Change in Account Principle	<u>-</u>	<u>-</u>	<u>(604,116)</u>	<u>-</u>
Ending Net Position	<u>\$ 36,170,991</u>	<u>\$ 34,230,859</u>	<u>\$ 32,953,139</u>	<u>\$ 1,940,132</u>

Most of the District's revenues are derived from water service charges received from its ratepayers. The District also derives cash flow from connection charges, antenna rents, and interest. The increase in Water Service Revenue of \$236,396 in 2020 is consistent with an average 4% rate revenue increase implemented for 2020. Other Non-Operating Revenue increased by \$89,088 due higher interest income and gains on sales of assets.

Operating Expenses for 2020 increased by \$325,008 for two reasons: significantly higher OBEB expenses and less labor was capitalized in 2020 than in 2019. Non-Operating expense went down by \$95,621 because more interest was capitalized 2020. Capital contributions vary from year to year and were up by \$817,890 in 2020 due to higher contributions from developers.

### **Capital Assets and Debt Administration**

The majority of the District's net assets are invested in capital assets (e.g. buildings, land, lines, and equipment). The District uses these capital assets to provide water service to residential and commercial customers in the District.

As of December 31, 2020, the District's investment in capital assets shown on the Statement of Net Position and in Note 3: Capital Assets is \$46,422,061 net of depreciation. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Please refer to Note 3.

### **Long-Term Debt**

The District uses long-term debt to help fund its capital projects in the form of revenue bonds and, for qualifying projects, low interest loans administered through the Washington State Department of Health.

The District issued revenue bonds in December 2011 and again in November 2016 – see NOTE 5. Prior bond covenants required the District to fund reserves in its Bond Redemption Fund at a level at least equal to the average amount required in any calendar year. These covenants were changed with the 2016 bond issue to allow for the purchase of a surety bond instead. This allowed the District to use the existing reserve funds for capital costs and thus reduce the need for higher funding. Proceeds from the 2016 bond issue were authorized for capitalized interest in the amount of \$521,000 to be used in the first three years of debt repayment. The final capitalized interest payment was made in 2019.

In 2012, the District was approved to receive Drinking Water State Revolving Fund loan monies for two capital projects totaling approximately \$4.3 million. The District completed one project in 2013 and the second project in 2017. See NOTE 5.

North City Water District  
**STATEMENT OF NET POSITION – Page 1**  
As of December 31, 2020

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents (Fair Value)	
Maintenance/Operating Account	\$ 1,327,042
Capital Account	5,106,936
Vehicle Replacement Account	505,399
Preservation Account	318,617
Developer Deposits Account	918,522
Accounts Receivable (Net)	1,330,575
Inventories	209,406
Prepayments	108,612
TOTAL CURRENT ASSETS	<u>9,825,109</u>

**Non-Current Assets:**

Restricted Assets ( <i>Cash &amp; Cash Equivalents</i> ) (NOTE 1))	
Revenue Bond Fund	113,690
Retainage Payable Account	290,704
Total Restricted Assets	<u>404,394</u>
Capital Assets:	
Capital Assets Not Being Depreciated or Amortized:	
Land - (NOTE 3)	3,849,718
Construction in Progress (NOTE 4)	12,707,065
Capital Assets Being Amortized: (NOTE 3)	
Intangibles Plant ( <i>Net of Amortization</i> )	42,179
Capital Assets Being Depreciated: (NOTE 3)	
Buildings	4,758,698
Equipment	1,195,643
Infrastructure	39,653,741
Vehicles	1,101,568
Less Accumulated Depreciation	<u>(16,886,551)</u>
Total Capital Assets (Net)	<u>46,422,061</u>
TOTAL NONCURRENT ASSETS	<u>46,826,455</u>
<b>TOTAL NET ASSETS</b>	<b><u>56,651,564</u></b>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions (NOTE 6)	128,959
Deferred Outflows Related to OPEB (NOTE 9)	3,513
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>132,472</u></b>

The notes to the financial statement are an integral part of this statement.

North City Water District  
**STATEMENT OF NET POSITION – Page 2**  
As of December 31, 2020

**LIABILITIES**

**Current Liabilities:**

Accounts Payable - Maint	452,564
Accounts Payable - Construction	325,549
Accrued Employee Costs	86,661
Compensated Absences - Current Portion	19,483
Other Liabilities	1,347,069
Accrued Interest Payable	131,065
Current Portion of DWSRF Debt (NOTE 5)	201,863
Current Portion of Long-Term Debt (NOTE 5)	405,000
Current Portion of Total OPEB Liability (NOTE 9)	7,026
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,976,280</b>

**Non-Current Liabilities:**

Compensated Absences	123,420
Drinking Water State Revolving Fund Loans - Net of Current Portion (NOTE 5)	2,974,088
Long-Term Debt - Net of Current Portion (NOTE 5)	12,475,000
Unamortized Bond Premium (Discount)	645,981
Net Pension Liability (NOTE 6)	419,331
Total OPEB Liability (NOTE 9)	845,881
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>17,483,701</b>
<b>TOTAL NET LIABILITIES</b>	<b>20,459,981</b>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions (NOTE 6)	153,064
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>153,064</b>

**NET POSITION**

Net Investment in Capital Assets	30,366,110
Restricted for Debt Service and Retainage	404,394
Unrestricted	5,400,487
<b>TOTAL NET POSITION</b>	<b>\$ 36,170,991</b>

The notes to the financial statement are an integral part of this statement.

North City Water District  
**STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION**  
For the Year Ended December 31, 2020

**OPERATING REVENUE**

Utility Sales and Service Fees	\$ 7,223,801
Other Operating Revenue	482,685
Total Operating Income	<u>7,706,486</u>

**OPERATING EXPENSES**

Operations:	
Water Purchased for Resale	1,572,778
General Operations	828,031
Maintenance	295,871
Customer Service and Billing	340,659
Administration:	
General Administration	602,113
Planning & Development	31,050
Public & Regional Involvement	180,395
Office & Records Management	571,448
Depreciation and Amortization	1,462,615
Franchise Fees	405,612
Property, Excise, and B&O Taxes	400,164
Total Operating Expenses	<u>6,690,736</u>

**OPERATING INCOME** **1,015,750**

**NON-OPERATING REVENUES (EXPENSES)**

Investment Interest Income	165,803
Bond and Loan Interest Expense (Net of Capitalization)	(199,007)
Other Non-Operating Revenue (Expense)	4,431
Total Non-Operating Revenues (Expenses)	<u>(28,773)</u>

Capital Contributions 953,155

**CHANGE IN NET POSITION** **1,940,132**

**TOTAL NET POSITION, January 1** 34,230,859

**TOTAL NET POSITION, December 31** **\$ 36,170,991**

The notes to the financial statement are an integral part of this statement.

North City Water District  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2020

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Customers	7,659,204
Cash Payments to Suppliers for Goods & Services	(3,579,001)
Cash Payments for Payroll and Related Costs	(1,752,748)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,327,455</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Capital Contributions from Connection Fees	79,755
Cash Changes in Non-Operating Expense/Income	(1,910)
Developer Deposits (Net of Costs)	821,076
Cash Payments for Capital Construction & Acquisition	(4,851,976)
2016 Bond Issue Cash Issue Costs	(600)
Cash Payments for Debt Service (NOTE 5)	(1,191,648)
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(5,145,303)</b>
Interest Received on Investments (Net of Fees)	165,803
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>165,803</b>
<b>NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS)</b>	<b>(2,652,045)</b>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	11,232,955
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>8,580,910</b>
<b>NON-CASH INVESTING, CAPITAL OR FINANCING TRANSACTIONS</b>	
Contributions of capital assets from developers	196,929
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
OPERATING INCOME (LOSS)	1,015,750
ADJUSTMENTS TO RECONCILE NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:	
Depreciation & Amortization Expense	1,462,614
Decrease (Increase) in Inventory	(51,501)
Decrease (Increase) in Accounts Receivable	(47,282)
Decrease (Increase) in Prepaid Expense	(26,852)
Increase (Decrease) in Other Payables	32,393
Increase (Decrease) in Maintenance Accounts Payable	(86,013)
Increase (Decrease) by Net Pensions Adjustments	28,346
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,327,455</b>

The accompanying notes are an integral part of these statements



North City Water District  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). The following is a summary for the most significant policies (including identification of those policies, which result in material departures from GAAP):

a. Reporting Entity

The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. An exception to full accrual is that interest on assessments is recorded when received. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year-end. Operating income includes gains and losses from the disposal of utility plant.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. All District deposits are mostly covered by Federal Depository Insurance Corporation (FDIC) and are selected through the contracting of treasurer services through King County.

d. Capital Assets – See Note 3

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major expenses for capital assets such as major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets donated by developers are recorded at market value.

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements. Restricted funds as of December 31, 2020 include the Revenue Bond funds totaling \$404,394.

Assets and liabilities shown as current in the accompanying statement of net assets exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

f. Receivables

The District records receivables when billing takes place. The District takes advantage of its authority to lien properties with delinquent utility balances. Such liens are recorded with King County and are maintained until the balances are paid in full. Interest is assessed on these liens until paid. For this reason, there is not an allowance for bad debts.

g. Inventories

Inventory is valued at the average acquisition cost, which approximates the market value. All items are physically counted at year-end.

h. Investments

District funds not required for immediate expenditure are invested via King County, the District's ex-officio treasurer, in the King County Investment Pool (Pool). Investments are stated at cost. For various risks related to the investments, see Deposits and Investments Note No. 2

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to 360 hours, is payable upon resignation, retirement or death. Sick leave may accumulate up to 960 hours as of December 31 of each calendar year.

j. Revenue and Expenses

OPERATING REVENUE is defined as those revenues generated from the sale of utility services and all associated administrative charges directly connected to those services. Non-operating revenues are defined as those revenues not meeting the definition of operating revenue.

OPERATING EXPENSES are those direct costs necessary for providing water services. Non-operating expenses are all other expenses not meeting the definition of an operating expense.

k. Construction Financing

The District has issued revenue bonds for long-term financing of capital improvements. The District also uses Drinking Water State Revolving Fund Loans made available through the Washington State Department of Health for public works projects. See Note No. 5 for additional information. Developers also build regular system extensions. Upon the completion of the project, the developer donates those main lines and other assets to the District.

l. Other Current Assets – Pre-paid items

Prepaid expenses are those costs which are paid up front for short term future use. One such prepaid item is insurance. As noted in Note 8, the District carries insurance through the Washington Governmental Entities Pool and pays for this coverage bi-annually. Since the monies are paid in advance of the coverage, the amount allocated to future periods is noted as pre-paid expense. The District also includes applies funds toward its postage meter and postage permit.

m. Intangible Assets

The District defers costs for intangible assets for a period of time equal to its estimated useful life. As of December 31, 2020, the District's intangible assets are \$42,179. See Note 3.

n. Pensions

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

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are mostly covered by federal depository insurance (FDIC). The Public Deposit Protection Commission of the State of Washington (PDPC) also provides limited coverage of the District's funds held by King County. The PDPC is a statutory authority which constitutes a multiple financial institution collateral pool that can make pro rata assessments to all public depositories within the state of up to ten percent (10%) of all their public deposits.

b. Investments

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with King County, its *ex officio* treasurer, to have all funds not required for immediate expenditure invested in the King County Investment Pool (Pool). As of December 31, 2020, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$8,526,089	1.20 Years

*Impaired Investments:* As of December 31, 2020, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is \$7,510 and the District's fair value of these investments is \$4,684.

*Interest Rate Risk.* As of December 31, 2020, the Pool's average duration 1.20 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

*Credit risk.* As of December 2020, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), Certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

*Investments in King County Investment Pool.* The District is a participant in the King County Investment Pool, an external investment pool. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The District reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per

share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County

Treasurer to invest the funds of participants. The King County investment policy is established by the Finance Committee. The county external investment pool does not have a credit rating and had a weighted average maturity of 1.20 years and value per share of \$1.0043 as of December 31, 2020.

c. The District's deposit and investment balances as of December 31, 2020, are as follows

<b>Cash and Cash Equivalents</b>	
Cash on Hand	\$ 750
Deposits with Private Financial Institutions	30,742
Deposits with King County Investment Pool at Fair Value	8,145,023
<b>Total Cash and Cash Equivalents</b>	<b>\$ 8,176,515</b>
<b>Restricted Assets</b>	
Deposits with King County Investment Pool	\$ 113,690
Retainage Payables Account	290,704
<b>Total Cash and Cash Equivalents</b>	<b>\$ 404,394</b>
<b>Total Cash, Deposits and Investments</b>	<b>\$ 8,580,909</b>

### NOTE 3 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major expenses for capital assets such as major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets donated by developers are recorded at market value. Utility plants in service and other capital assets are recorded at cost. Capital assets for the year ended December 31, 2020 were as shown in the following table:

	2020 Beg Bal	2020 Activity Increase	Decrease / Adjustment	2020 End Bal
<b>UTILITY PLANT NOT BEING DEPRECIATED OR AMORTIZED</b>				
Land	\$ 3,496,535	\$ 353,182	\$ -	3,849,718
Construction-in-Progress	8,266,680	4,440,385	-	\$ 12,707,065
<b>TOTAL UTILITY PLANT NOT BEING DEPRECIATED</b>	<b>\$ 11,763,216</b>	<b>\$ 4,793,568</b>	<b>\$ -</b>	<b>\$ 16,556,783</b>
<b>UTILITY PLANT BEING AMORTIZED - NET OF AMORTIZATION</b>				
Intangible Plant	\$ 52,724	\$ -	\$ (10,545)	\$ 42,179
<b>TOTAL UTILITY PLANT BEING AMORTIZED</b>	<b>\$ 52,724</b>	<b>\$ -</b>	<b>\$ (10,545)</b>	<b>\$ 42,179</b>
<b>UTILITY PLANT BEING DEPRECIATED</b>				
Building & Structures	\$ 4,541,638	\$ 217,060	\$ -	\$ 4,758,698
Machinery & Equipment	1,168,437	27,207	-	1,195,643
Vehicles	1,063,948	60,410	(22,790)	1,101,568
Infrastructure	39,358,586	256,438	38,717	39,653,741
<b>TOTAL UTILITY PLANT BEING DEPRECIATED</b>	<b>\$ 46,132,608</b>	<b>\$ 561,115</b>	<b>\$ 15,926</b>	<b>\$ 46,709,650</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Building & Structures	\$ (569,121)	\$ (113,824)	\$ -	\$ (682,945)
Machinery & Equipment	(1,021,191)	(80,742)	-	(1,101,933)
Vehicles	(488,576)	(89,132)	20,511	(557,196)
Infrastructure	(13,337,388)	(1,168,372)	(38,717)	(14,544,477)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>\$ (15,416,277)</b>	<b>\$ (1,452,070)</b>	<b>\$ (18,205)</b>	<b>\$ (16,886,552)</b>
<b>UTILITY PLANT BEING DEPRECIATED (NET)</b>	<b>\$ 30,716,332</b>	<b>\$ (890,955)</b>	<b>\$ (2,279)</b>	<b>\$ 29,823,097</b>
<b>TOTAL UTILITY PLANT, NET</b>	<b>\$ 42,532,272</b>	<b>\$ 3,902,612</b>	<b>\$ (12,824)</b>	<b>\$ 46,422,060</b>

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation related to the property sold is charged, and the net gain or loss on disposition is credited or charged to income.

Capital assets are depreciated using straight-line method of depreciation over the following estimated useful lives:

Buildings	20 to 30 years
Equipment	3 to 10 years
Infrastructure	10 to 50 years
Vehicles	3 to 10 years

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

#### NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on capital projects. The construction in progress as of December 31, 2020 was as follows:

<b>CONSTRUCTION IN PROGRESS</b>	
<i>As of December 31, 2020</i>	
Comprehensive Water Plan	\$ 471,722
GIS Project	3,809
Maintenance Building	12,231,534
<b>TOTAL</b>	<b>\$ 12,707,065</b>

#### NOTE 5 - LONG-TERM DEBT

##### **a. Revenue Bonds**

The District operates as a propriety fund. Therefore, the principal and interest on revenue bonds are payable from and secured by a pledge of net operating revenues.

The District issued Water Revenue Bonds in December 31, 2011 in the amount of \$9,865,000. These bonds bear interest rates ranging from 2.0% to 4.0% and are payable semi-annually each April 1 and October 1. A portion of the bond principle matures each October 1 beginning in the year 2012 through 2031. The outstanding balance as 12/31/2020 is:

\$ 5,195,000

The District issued Water Revenue Bonds in November 3, 2016 in the amount of \$7,685,000. These bonds bear interest rates of 4.0% and a term of thirty years. The interest is due semi-annually each April 1 and October 1. The bond principle is payable each October 1 beginning in the year 2032 through 2046. The outstanding balance as 12/31/2020 is:

\$ 7,685,000

Total Bond Restricted Debt

\$ 12,880,000

## b. Junior Lien Loans

### Drinking Water State Revolving Fund (DWSRF) Loan

The District entered into two loan agreements with the Department of Health in 2012. Both loans are for 24 years including 4 years from the contract execution date to the project completion date with a 1.5% interest rate. The first project allowed the District to accelerate the replacement of cast iron water mains. The second project allowed a new pump station to be constructed to utilize 1.9 million gallons of water in the reservoir that was previously, unusable.

The pump station project started construction in May 2015 and was completed in 2017. The outstanding balance for both projects as 12/31/2019 is \$3,377,815 as shown below.

The District was required to have Federal Audits for both loans for 2013 and a single federal audit in 2015 for the pump station loan.

## c. Short-term Debt

The District has not obtained short-term debt in the past. It does not anticipate obtaining short-term debt in the future.

### **Combined Long Term Debt Service Schedule**

	2011 Revenue Bond Principal	2011 Revenue Bond Interest	2016 Revenue Bond Principal	2016 Revenue Bond Interest	DWSRF Loan Principal	DWSRF Loan Interest	COMBINED ANNUAL DEBT SERVICE
2021	\$ 405,000	\$ 169,223		\$ 307,400	\$ 201,863	\$ 47,639	\$ 1,131,125
2022	415,000	159,098		307,400	201,863	44,611	1,127,972
2023	430,000	147,685		307,400	201,863	41,583	1,128,532
2024	440,000	134,785		307,400	201,863	38,555	1,122,604
2025	455,000	121,585		307,400	201,863	35,527	1,121,376
2026-2030	2,495,000	378,465	-	1,537,000	1,009,317	132,218	5,552,000
2031-2035	555,000	22,200	1,630,000	1,442,200	982,386	56,519	4,688,305
2036-2040			2,430,000	1,024,200	174,932	2,624	3,631,756
2041-2045			2,960,000	497,600	-	-	3,457,600
2046			665,000	26,600			691,600
	<b>\$ 5,195,000</b>	<b>\$ 1,133,040</b>	<b>\$ 7,685,000</b>	<b>\$ 6,064,600</b>	<b>\$ 3,175,951</b>	<b>\$ 399,278</b>	<b>\$ 23,652,869</b>

### **Changes in Long-Term Liabilities**

During the year ended December 31, 2020, the following changes occurred in long-term liabilities: The District's compensated absence liability represents the amount owed to District employees upon separation from District employment. See Note 1i for more information regarding compensated absences.

	Beginning Balance 1/1/2020	Additions	Reductions	Ending Balance 12/31/2020	Due Within One Year
Revenue Bonds Payable - 2011	\$ 5,590,000	\$ -	\$ (395,000)	\$ 5,195,000	\$ 405,000
Revenue Bonds Payable - 2016 <sup>(1)</sup>	7,685,000	-		7,685,000	-
Compensated Absences	117,932	24,971		142,903	19,483
DWSRF Loans	3,377,815	-	(201,863)	3,175,951	201,863
Pension Liability	436,110		(16,779)	419,331	
OBEB Liability	669,705	183,202		852,907	7,026
<b>Total LT Liabilities</b>	<b>\$ 17,876,562</b>	<b>\$ 208,173</b>	<b>\$ (613,642)</b>	<b>\$ 17,471,093</b>	<b>\$ 633,373</b>

(1) Principal payments do not start until 2032



## NOTE 6 – PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2020.

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ ( 419,331)
Pension assets	\$ 0
Deferred outflows of resources	\$ 128,959
Deferred inflows of resources	\$( 153,063)
Pension expense/expenditures	\$( 930)

Substantially all District 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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380/

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

### Public Employees' Retirement System (PERS)

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent 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 non-duty 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 percent. 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 percent. 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) for 2020 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee *</b>
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.86%</b>	<b>6.00%</b>
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fees	0.18%	
<b>Totals</b>	<b>12.97%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent 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 three percent 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 five percent 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 non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent 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 ten 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 percent and escalate to 15 percent 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 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:



<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – August 2020		
PERS Plan 2/3	7.92%	7.41%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.86%</b>	<b>7.41%</b>
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fees	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.97%</b>	<b>7.90%</b>

\* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The District's actual PERS plan contributions were \$58,945 to PERS Plan 1 and \$97,321 to PERS Plan 2/3 for the year ended December 31, 2020.

### Actuarial Assumptions

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

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities 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-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions since the last valuation.

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

- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

### Discount Rate

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

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 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

### 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 as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

### Sensitivity of Net Pension Liability / (Asset)

The table below presents the District's proportionate share\* of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 356,872	\$284,915	\$ 222,161
PERS 2/3	\$ 836,378	\$134,417	(\$443,648)

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 June 30, 2020, the District reported a total pension liability of \$419,331 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$284,915
PERS 2/3	\$134,417
<b>TOTAL</b>	<b>\$419,331</b>

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.008552%	0.008070%	-0.000482%
PERS 2/3	0.011042%	0.010510%	-0.000532%

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* for all plans except LEOFF 1.

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

### Pension Expense

For the year ended December 31, 2020, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (5,897)
PERS 2/3	\$ 4,967
<b>TOTAL</b>	<b>\$ (930)</b>

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on pension plan investments	\$	\$(1,586)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$29,912	\$
<b>TOTAL</b>	<b>\$29,912</b>	<b>\$(1,586)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$48,119	(\$16,846)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$6,826)
Changes of assumptions	\$1,914	(\$91,818)
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	(\$35,987)
Contributions subsequent to the measurement date	\$49,013	\$0
<b>TOTAL</b>	<b>\$99,047</b>	<b>(\$151,477)</b>

Deferred outflows of resources of \$78,925 (\$29,912 for PERS 1 and \$49,013 for PERS 2/3) related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
2021	(\$ 7,199)	(\$ 68,553)
2022	(\$ 226)	(\$ 21,110)
2023	\$ 2,197	(\$ 5,389)
2024	\$ 3,642	\$ 7,351
2025		(\$ 7,139)
Thereafter		(\$ 8,416)
<b>TOTAL</b>	<b>(\$ 1,586)</b>	<b>(\$ 98,257)</b>

#### NOTE 7 – JOINT VENTURES

The District has a long-term supply agreement with Seattle Public Utilities (SPU). SPU provides the District with all of its water. The supply quantity in the agreement is sufficient to supply the District for at least three decades. The District made direct water purchases from SPU in 2020 of \$1,572,778.

#### NOTE 8 – RISK MANAGEMENT

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

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

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

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

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

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

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

#### NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (OPEB) INSURANCE

The following table represents the aggregate OPEB amounts for all plans subject to the requirement of GASB Statement 75 for the year ended December 31, 2020.

<b>Aggregate OPEB Amounts – All Plans</b>	
OPEB liabilities	\$ 852,907
OPEB deferred outflows	\$ 3,513
OPEB expenses/expenditures	\$ 190,160

#### OPEB Plan Description

The District is a participating employer in the State of Washington’s Public Employees Benefits Board (PEBB) program, a single-employer defined benefit plan administered by the Washington State Health Care Authority (HCA) per RCW 41.05.065, under which requirements for employer and non-employer contribution entities to pay OPEB as the benefit comes due, are established, or may be amended. PEBB establishes eligibility criteria for both active employees and retirees. The plan provides medical, dental, and life insurance benefits for the public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides other post-employment benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Part A and B. PEBB determines the amount of the explicit subsidy annually. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District payments were \$6,958 to the plan for the year ended December 31, 2020.

#### Employees Covered by Benefit Term

Membership in the PEBB plan for the District consisted of the following as of December 31, 2020.

Active employees	15
Retirees receiving benefits	2
Retirees not receiving benefits	1
Total	18

The plan is funded in a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

#### Assumptions and Other Inputs

As allowed by Government Account Standards Board Statement No. 75 for plans when fewer than 100 employees (active and inactive) provided with OPEB through the plan, the Office of the State Actuary prepared an Alternative Measurement Method (AMM) Online Tool in the form of a downloadable spreadsheet, which was used instead of the actuarial valuation method. This tool allows eligible employers to determine their Other Post-Employment Benefit (OPEB) liability under the Government Account Standards Board Statement No. 75. The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 7.0%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Current Healthcare Cost Trend Rate (7.0%)	1% Increase (8.0%)
Total OPEB Liability	\$690,712	\$852,907	\$1,066,872

The following presents the total OPEB liability of the District calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.50 percent) or 1 percentage point higher (4.50 percent) than the current rate.

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB Liability	\$1,033,338	\$852,907	\$710,943

#### Changes in the Total OPEB Liability

PEBB	
<b>Total OPEB Liability at 1/1/2020</b>	\$ 669,705
Service Cost	\$ 30,710
Interest	\$ 24,394
Changes of benefit terms	
Differences between expected and actual experience and assumptions	\$ 135,056
Benefit payment	\$ (6,958)
Other changes	
<b>Total OPEB Liability at 12/31/2020</b>	\$ 852,907

The District recognized OPEB Expense for the years ended December 31, 2020 as follows:

Service Cost	\$ 30,710
Interest Cost	\$ 24,394
Change in Experience Data and Assumptions	\$ 135,056
<b>Total OPEB Expense</b>	<b>\$ 190,160</b>

The alternative measurement was based on the following methods and assumptions:



## Methodology

Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
<b>Assumptions</b>	
Discount Rate*	
Beginning of Measurement Year	3.50%
End of Measurement Year	2.21%
Projected Salary Changes	3.5% + Service- Based Increases
Healthcare Trend Rates**	Initial rate is about 7%, trends down to around 5% in 2020
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100%Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%
*Source: Bond Buyer General Obligation 20-Bond Municipal Index	
**Source: Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see OSA's 2018 PEBB OPEB Actuarial Valuation Report	

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$
Changes of assumptions	\$	\$
Payments subsequent to the measurement date	\$3,513	\$
TOTAL*	\$3,513	\$

Deferred outflows of resources of \$3,513 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2020.

#### NOTE 10 – 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. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges, and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The most significant impact to the District is the suspension of late fees. The District had a shortfall in revenues of approximately \$100,000 in 2020. The other impact to the District is with lower usage revenues from Commercial and Municipal customers due to closures. However, the revenues received from these customers comprises less than 7% of the District's service revenues so the impact does not create a financial burden for the District.

The District has adequate reserves to cover these short falls for 2021 without significant financial impact to customers or the operations of the District. The length of time these measures will be in place, and the full extent of the longer-term financial impact on the District is unknown at this time.



# REQUIRED SUPPLEMENT INFORMATION (RSI)

## SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY As of June 30:

Plan PERS 1	2015	2016	2017	2018	2019	2020	20XX	20XX	20XX	20XX	20XX
Employer's proportion of the net pension liability (asset)	0.009463%	0.009500%	0.008886%	0.008703%	0.008552%	0.008070%					
Employer's proportionate share of the net pension liability	\$ 495,003	\$ 510,195	\$ 421,648	\$ 388,679	\$ 328,855	\$ 284,915					
Employer's covered employee payroll	\$1,124,803	\$ 1,138,244	\$ 1,117,446	\$1,162,368	\$1,200,687	\$1,227,462					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	44.01%	44.82%	37.73%	33.44%	27.39%	23.21%					
Plan fiduciary net position as percentage of the total pension liability	59.1%	57.03%	61.24%	63.22%	67.12%	68.64%					
Plan PERS 2/3	2015	2016	2017	2018	2019	2020					
Employer's proportion of the net pension liability (asset)	0.012225%	0.012173%	0.011430%	0.011176%	0.011042%	0.010510%					
Employer's proportionate share of the net pension liability	\$ 436,806	\$ 612,901	\$ 397,138	\$ 190,820	\$ 107,255	\$ 134,417					
Employer's covered employee payroll	\$1,088,204	\$ 1,138,244	\$ 1,117,446	\$1,162,368	\$1,200,687	\$1,227,462					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.14%	53.85%	35.54%	16.42%	8.93%	10.95%					
Plan fiduciary net position as percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%					

# REQUIRED SUPPLEMENT INFORMATION (RSI)

## SCHEDULE OF EMPLOYER CONTRIBUTIONS As of December 31:

Plan PERS 1	2015		2016	2017	2018	2019	2020	20XX	20XX	20XX	20XX	20XX
Statutory or contractually required contributions	\$ 49,305	\$ 54,942	\$ 56,168	\$ 60,064	\$ 60,369	\$ 60,369	\$ 60,369					
Contributions in relation to the statutory or contractually required contributions	\$ (49,305)	\$ (54,942)	\$ (56,168)	\$ (60,064)	\$ (60,369)	\$ (60,369)	\$ (60,369)					
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
Covered employer payroll	\$ 1,123,885	\$ 1,143,374	\$ 1,111,928	\$ 1,186,291	\$ 1,221,325	\$ 1,221,325	\$ 1,228,799					
Contributions as a percentage of covered employee payroll	4.39%	4.81%	5.05%	5.06%	4.94%	4.94%	4.91%					
<b>Plan PERS 2/3</b>												
Statutory or contractually required contributions	\$ 65,333	\$ 71,758	\$ 78,634	\$ 88,971	\$ 94,314	\$ 94,314	\$ 94,314					
Contributions in relation to the statutory or contractually required contributions	\$ (65,333)	\$ (71,758)	\$ (78,634)	\$ (88,971)	\$ (94,314)	\$ (94,314)	\$ (94,314)					
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
Covered employer payroll	\$ 1,123,885	\$ 1,143,374	\$ 1,111,928	\$ 1,186,291	\$ 1,221,325	\$ 1,221,325	\$ 1,228,799					
Contributions as a percentage of covered employee payroll	5.81%	6.28%	7.07%	7.50%	7.72%	7.72%	7.68%					

### NOTES TO SCHEDULES

#### Note 1

These schedules will be built prospectively until they contain ten years of data.

#### Note 2: Changes of Benefit Terms

There were no changes of benefits for the Pension Plans.

#### Note 3: Changes of Assumptions

There were no changes for the Pension Plans.

**REQUIRED SUPPLEMENT INFORMATION (RSI)**

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
For the year ended December 31:

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Total OPEB Liability, beginning of year	\$ 604,116	\$ 624,998	\$ 669,705
Service Cost	35,783	27,831	30,710
Interest	22,858	25,040	24,394
Changes in Experience Date and Assumptions	(34,897)	3,531	135,056
Changes in Benefit Terms			
Benefit Payments	(2,862)	(11,695)	(6,958)
Other Changes			
Total OPEB Liability, end of year	<b>\$ 624,998</b>	<b>\$ 669,705</b>	<b>\$ 852,907</b>
Covered Employee Payroll	<b>\$ 1,213,131</b>	<b>\$ 1,175,903</b>	<b>\$ 1,228,799</b>
Total OPEB Liability as a Percentage of Covered P	51.52%	56.95%	69.41%

**Notes to Schedule**

*Note 1* - No assets are accumulated in a trust meets the criteria in paragraph 4 of GASB 75 to pay related benefits,

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