Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

North City Water District

For the period January 1, 2025 through December 31, 2025

Published August 27, 2026

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Office of the Washington State Auditor
Pat McCarthy

August 27, 2026

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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TABLE OF CONTENTS

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, 2025 through December 31, 2025

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, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 16, 2026.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Pat McCarthy, State Auditor

Olympia, WA

July 16, 2026

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

North City Water District
January 1, 2025 through December 31, 2025

Board of Commissioners
North City Water District
Shoreline, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the North City Water District, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the North City Water District, as of December 31, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 July 16, 2026 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

July 16, 2026

FINANCIAL SECTION

North City Water District
January 1, 2025 through December 31, 2025

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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

	2025	2024	2025-2024 Change
Current and Other Assets	$ 17,036,822	$ 15,393,268	$ 1,643,554
Capital Assets	51,903,665	50,739,257	1,164,408
Total Assets	68,940,487	66,132,525	2,807,962
Deferred Outflows of Resources	461,530	437,786	23,744
Long-term Liabilities	13,262,802	14,085,582	(822,780)
Other Liabilities	2,849,667	2,863,307	(13,640)
Total Liabilities	16,112,469	16,948,889	(836,420)
Deferred Inflows of Resources	128,223	166,476	(38,253)
Net Investment in Capital Assets	38,407,253	36,468,531	1,938,722
Restricted	817,936	707,407	110,529
Unrestricted	13,936,136	12,279,008	1,657,128
Total Net Position	$ 53,161,325	$ 49,454,946	$ 3,706,379

The overall financial condition of the District remains strong with an increase in net position of $3,706,379 in 2025. The increase is due to an increase of $2,831,706 in Total Assets and Deferred Outflows, net of a decrease in Total Liabilities and Deferred Inflows of $874,673. The increase in Total Assets is due to an excess of cash operating revenues over cash operating expenses and cash from connections fees from several Water System Extension Agreements (WSEA). 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 $461,530 increased by $23,744 (see Note 7 for more information on GASB 68 and Note 10 for GASB 75). Total Liabilities decreased by $836,420 primarily driven by a reduction in indebtedness with the payment of current year maturities (see Note 5), and a reduction in OPEB liabilities. Deferred Inflows of $128,223 decreased by $38,253 for Pensions and amounts deferred from refunding of debt. See NOTE 7 for more information on GASB 68 as it relates to Net Pension Assets and Deferred Inflows of Resources and NOTE 5 for Long-Term Debt.

The amount invested (or equity) in capital assets is $38,407,253. The difference between this amount and the net book value of Capital assets of $51,903,665 is the outstanding debt and other capital related assets and liabilities attributable to the funding of capital assets. Please refer to Note 3 for more information regarding the composition of capital assets and Note 5 for more information about the District's debt. The restricted position of $817,936 is the amount set aside to make bond payments and for the payment of retainage held under construction contracts. The unrestricted balance of $13,936,136 represents the assets available for future use in providing utility service.

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

	2025	2024	2025-2024 Change
Water Service	$ 8,800,761	$ 8,251,519	$ 549,242
Other Operating Revenue	565,507	693,726	(128,219)
Other Non-Operating Revenue	2,122,266	582,893	1,539,373
Total Revenues	11,488,534	9,528,138	1,960,396
Operating Expenses	8,043,516	8,047,874	(4,358)
Non-Operating Expenses	375,361	384,149	(8,788)
Total Expenses	8,418,877	8,432,023	(13,146)
Excess before Contributions	3,069,657	1,096,115	1,973,542
Capital Contributions	636,722	3,236,660	(2,599,938)
Change in Net Position	3,706,379	4,332,775	(626,396)
Beginning Net Position	49,454,946	45,238,994	4,215,952
Change in Account Principle	-	(116,823)	116,823
Ending Net Position	$ 53,161,325	$ 49,454,946	$ 3,706,379

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 $549,243 in 2025 is higher than in 2024 due to a 4% rate increase implemented in 2025. Other Non-Operating Revenue is higher by $1,539,373 from higher-than-normal due to a nearly $1.4 million refund from Seattle Public Utilities (SPU). See more information under Other Key Matters.

Operating Expenses for 2025 were consistent with 2024 with only a minor decrease of $4,358. Capital contributions vary from year to year and were down by $2,599,938 in 2025 due to a lower number of developer projects completed in 2025.

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, 2025, the District's investment in capital assets shown on the Statement of Net Position and in Note 3: Capital Assets is $51,903,665 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 November 2016 and again in November 2021 to refund the 2011 revenue bonds– 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 where 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. The 2021 refunding bonds maintained all existing bond covenants.

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.

Other Key Matters

Wholesale Water Refund: Seattle Public Utilities (SPU) periodically updates rates for its sixteen Full and Partial Requirements wholesale water customers based on projections of both future costs and customer demand. SPU also does an annual reconciliation of the prior year's actual revenues and actual allocated costs for these customers as a group and tracks the cumulative over or underpayment. Historically this information was solely for use in setting future wholesale water rates, however amended contracts signed in late 2025 added an option for a direct return of the overpayment that had been growing since 2013. The cumulative balance as of 1/31/2024 was allocated between customers as per the contract and provided to customers in February 2026.

The District's allocated share of the overpayment refund is $1,396,673. Per the State Auditor's Office recommendation it was classified as Non-Operating Revenue. A formal ruling provided by the Department of Revenue stipulated that since it was a return of overpayments, and not for services rendered, no tax on the refund is required to be paid.

North City Water District
STATEMENT OF NET POSITION – Page 1
As of December 31, 2025

ASSETS		
Current Assets:		
Cash and Cash Equivalents (Fair Value)		
Maintenance/Operating Account	$	3,338,721
Capital Account		8,285,078
Vehicle Replacement Account		745,325
Developer Deposits Account		754,588
Accounts Receivable (Net)		2,920,861
Inventories		310,487
Prepayments		232,594
TOTAL CURRENT ASSETS		16,587,654
Non-Current Assets:		
Restricted Assets (*Cash & Cash Equivalents*) (NOTE 1))		
Revenue Bond Fund		112,277
Retainage Payable Account		9,768
Total Restricted Assets		122,045
Capital Assets:		
Capital Assets Not Being Depreciated or Amortized:		
Land - (NOTE 3)		3,843,168
Construction in Progress (NOTE 4)		1,018,405
Capital Assets Being Amortized: (NOTE 3)		
Intangibles Plant (*Net of Amortization*)		363,671
Capital Assets Being Depreciated: (NOTE 3)		
Buildings		17,714,980
Equipment		1,211,270
Infrastructure		50,090,208
Vehicles		1,284,808
Less Accumulated Depreciation		(23,622,845)
Total Capital Assets (Net)		51,903,665
Net Pension Assets (NOTE 7)		327,123
TOTAL NONCURRENT ASSETS		52,352,833
TOTAL NET ASSETS		**68,940,487**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions (NOTE 7)		458,952
Deferred Outflows Related to OPEB (NOTE 10)		2,578
TOTAL DEFERRED OUTFLOWS OF RESOURCES		**461,530**

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, 2025

LIABILITIES	
Current Liabilities:	
Accounts Payable - Maint	593,316
Accounts Payable - Construction	63,893
Accrued Employee Costs	90,130
Compensated Absenses - Current Portion	51,531
Other Liabilities	1,273,212
Accrued Interest Payable	100,566
Current Portion of DWSRF Debt (NOTE 5)	201,863
Current Portion of Long-Term Debt (NOTE 5)	470,000
Current Portion of Total OPEB Liability (NOTE 10)	5,156
TOTAL CURRENT LIABILITIES	2,849,667
Non-Current Liabilities:	
Compensated Absences	264,582
Drinking Water State Revolving Fund Loans - Net of Current Portion (NOTE 5)	1,964,771
Long-Term Debt - Net of Current Portion (NOTE 5)	10,190,000
Unamortized Bond Premium (Discount)	472,646
Net Pension Liability (NOTE 7)	78,061
Total OPEB Liability (NOTE 10)	292,742
TOTAL NONCURRENT LIABILITIES	13,262,802
TOTAL NET LIABILITIES	**16,112,469**
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions (NOTE 7)	95,550
Deferred Inflows Related to Amount Deferred from Refunding (NOTE 5)	32,673
TOTAL DEFERRED INFLOWS OF RESOURCES	**128,223**
NET POSITION	
Net Investment in Capital Assets	38,407,253
Restricted:	
Restricted for Debt Service and Retainage	122,045
Restricted for Pension Assets	695,891
Unrestricted	13,936,136
TOTAL NET POSITION	**$ 53,161,325**

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, 2025

OPERATING REVENUE		
Utility Sales and Service Fees	$	8,800,761
Other Operating Revenue		565,507
Total Operating Income		9,366,268
OPERATING EXPENSES		
Operations:		
Water Purchased for Resale		1,628,812
General Operations		1,052,327
Maintenance		465,515
Customer Service and Billing		491,351
Administration:		
General Administration		424,828
Planning & Development		2,942
Public & Regional Involvement		179,945
Office & Records Management		840,440
Depreciation and Amortization		1,964,662
Francise Fees		496,475
Property, Excise, and B&O Taxes		496,219
Total Operating Expenses		8,043,516
OPERATING INCOME (LOSS)		**1,322,752**
NON-OPERATING REVENUES (EXPENSES)		
Investment Interest Income - Net FMV Adjustment		699,588
Bond and Loan Interest Expense		(375,361)
Other Non-Operating Revenue (Expense)		1,422,678
Total Non-Operating Revenues (Expenses)		1,746,905
Excess (Deficiency) Before Contributions		**3,069,657**
Capital Contributions		636,722
CHANGE IN NET POSITION		**3,706,379**
TOTAL NET POSITION, January 1		49,454,946
TOTAL NET POSITION, December 31	**$**	**53,161,325**

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, 2025

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	9,338,546
Cash Payments to Suppliers for Goods & Services	(4,278,457)
Cash Payments for Payroll and Related Costs	(1,876,161)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**3,183,928**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital Contributions from Connection Fees	541,065
Cash Changes in Non-Operating Expense/Income	5,424
Developer Deposits (Net of Costs)	18,296
Cash Payments for Capital Construction & Acquisition	(3,086,743)
Cash Payments for Debt Service (NOTE 5)	(1,075,767)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	**(3,597,725)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received on Investments (Net of Fees)	611,229
Adjustment to FMV of Investments	88,358
CASH FLOWS FROM INVESTING ACTIVITIES	**699,587**
NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS	**285,790**
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	12,959,965
CASH AND CASH EQUIVALENTS - END OF PERIOD	**13,245,755**
NON-CASH INVESTING, CAPITAL OR FINANCING TRANSACTIONS	
Contributions of capital assets from developers	**95,657**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME (LOSS)	**1,322,752**
ADJUSTMENTS TO RECONCILE NET OPERAING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:	
Depreciation & Amortization Expense	1,964,662
Decrease (Increase) in Inventory	26,129
Decrease (Increase) in Accounts Receivable	(27,723)
Decrease (Increase) in Prepaid Expense	67,640
Increase (Decrease) in Other Payables	(47,287)
Increase (Decrease) in Maintenance Accounts Payable	111,992
Increase (Decrease) by Pensions Adjustments	(234,237)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**3,183,928**

The accompanying notes are an integral part of these 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.

The District complies with all applicable GASB pronouncements and GAAP hierarchy, as prescribed by GASB.

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, 2025` include the Revenue Bond funds totaling $122,045.

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 First In/First Out (FIFO) cost, which approximates the market value. All items are physically counted twice a year.

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 2.

i. Compensated Absences

Compensated absences are employee leave benefits for which payment will be made, such as vacation and sick leave. The District recognizes expenses and related liabilities for compensated absences as the benefits are earned. Vacation leave may be accumulated up to 312 hours for non-exempt employees and 468 hours for exempt employees and is payable upon resignation, retirement, or death. Sick leave may accumulate up to 960 hours as of December 31 each year.

Compensated leave benefits are recognized as liabilities and the amount is determined by using an assessment of how much they are "more-likely-than-not" (MLTN) to result in future outflows, either through use during employment or payment upon termination. The District's calculation of the liability applies a FIFO (first-in, first-out) assumption regarding the use of accumulated leave hours.

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 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 9, the District carries insurance through the Washington Governmental Entities Pool and pays for this coverage annually. Since the monies are paid in advance of the coverage, the amount allocated to future periods is noted as prepaid 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, 2025, the District's intangible assets are $363,671. Intangible plant consists primarily of comprehensive planning, engineering, and system documentation costs that provide benefit over multiple reporting periods but do not represent tangible utility infrastructure. These costs are amortized over their estimated useful lives and reported separately from depreciable utility plant. The carrying value presented reflects amortization recorded against the related asset balances
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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

o. Deferred Outflows/Inflows of Resources

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

p. 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.

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

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.

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, 2025, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$13,198,284	.92 Years

Impaired Investments: As of December 31, 2025, 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 District's share of the impaired investment pool principal is $2,638 and the District's fair value of these investments is $1,185.

Interest Rate Risk. As of December 31, 2025, the Pool's average duration .92 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 2025, 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 .92 years and value per share of $1.0077 as of December 31, 2025.

c. The District's deposit and investment balances as of December 31, 2025, are as follows

Cash and Cash Equivalents		
Cash on Hand	$	750
Deposits with Private Financial Institutions		29,791
Deposits with King County Investment Pool at Fair Value		13,093,171
Total Cash and Cash Equivalents	**$**	**13,123,712**
Restricted Assets		
Deposits with King County Investment Pool	$	112,277
Retainage Payables Account		9,768
Total Cash and Cash Equivalents	**$**	**122,045**
Total Cash, Depostis and Investments	**$**	**13,245,757**

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. With the implementation of GASB 89 in 2021, interest during the construction period is no longer capitalized to assets. 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.

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.

Intangible plant consists primarily of comprehensive planning, engineering, and system documentation costs that provide benefit over multiple reporting periods but do not represent tangible utility infrastructure. These costs are amortized over their estimated useful lives and reported separately from depreciable utility plant. The carrying value presented reflects amortization recorded against the related asset balances

Capital assets for the year ended December 31, 2025 were as shown in the following table:

	2025 Beg Bal	2025 Activity Increase	Decrease / Adjustment	2025 End Bal
UTILITY PLANT NOT BEING DEPRECIATED OR AMORTIZED				
Land	$ 3,849,718	$ -	$ (6,550)	3,843,168
Construction-in-Progress	1,522,649	2,794,419	(3,298,663)	$ 1,018,405
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	**$ 5,372,367**	**$ 2,794,419**	**$ (3,305,213)**	**$ 4,861,572**
UTILITY PLANT BEING AMORTIZED - NET OF AMORTIZATION				
Intangible Plant	$ 418,571	$ -	$ (54,900)	$ 363,671
TOTAL UTILITY PLANT BEING AMORTIZED	**$ 418,571**	**$ -**	**$ (54,900)**	**$ 363,671**
UTILITY PLANT BEING DEPRECIATED				
Building & Structures	$ 17,714,981	$ -	$ -	$ 17,714,981
Machinery & Equipment	1,210,662	29,487	(28,880)	1,211,270
Vehicles	1,254,851	88,921	(58,964)	1,284,808
Infrastructure	46,613,118	3,616,672	(139,582)	50,090,208
TOTAL UTILITY PLANT BEING DEPRECIATED	**$ 66,793,612**	**$ 3,735,080**	**$ (227,426)**	**$ 70,301,266**
LESS ACCUMULATED DEPRECIATION FOR:				
Building & Structures	$ (2,181,723)	$ (459,437)	$ -	$ (2,641,160)
Machinery & Equipment	(761,777)	(87,465)	117,240	(732,001)
Vehicles	(604,723)	(98,052)	15,036	(687,739)
Infrastructure	(18,297,072)	(1,446,371)	181,498	(19,561,945)
TOTAL ACCUMULATED DEPRECIATION	**$ (21,845,294)**	**$ (2,091,325)**	**$ 313,774**	**$ (23,622,845)**
UTILITY PLANT BEING DEPRECIATED (NET)	**$ 44,948,318**	**$ 1,643,755**	**$ 86,349**	**$ 46,678,422**
TOTAL UTILITY PLANT, NET	**$ 50,739,257**	**$ 4,438,174**	**$ (3,273,765)**	**$ 51,903,666**

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on capital projects. The construction in progress as of December 31, 2025 was as follows:

CONSTRUCTION IN PROGRESS *As of December 31, 2025*	
GIS Project	$ 226,780
2021.08 2021 Emergency Resp Plan	1,542
2022.04 3rd Av North WM Install	427,147
24.03 37th Av WM Rpl	139,063
24.04 19th Ave WM	96,743
25.01 155th Av WM	33,320
22.04 3rd Av S WM Install	1,231
26.03 WM Repl 6 &145 Phase 3	92,580
TOTAL	**$ 1,018,405**

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. No assets are pledged as collateral for debt. Nor are there any unused lines of credit.

The District refunded Water Revenue Bonds issued December 31, 2011 on November 17, 2021 in the amount of $4,855,000. The interest is due semi-annually each April 1 and October 1. The bond principle is payable each October 1 beginning in the year 2022 through 2031. The refunding resulted in a Deferred Inflow for an amount deferred on the refunding, which will be amortized over the life of the loan. The outstanding balance as 12/31/2025 is:	$ 2,975,000
The District issued Water Revenue Bonds in November 3, 2016 in the amount of $7,685,000. 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 12/31/2025 is:	$ 7,685,000
Total Bond Restricted Debt	$ 10,660,000

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 steel water mains in the District. 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 12/31/2025 is $2,166,634 as shown below.

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

	2021 Revenue Bond Principal	2021 Revenue Bond Interest	2016 Revenue Bond Principal	2016 Revenue Bond Interest	DWSRF Loan Principal	DWSRF Loan Interest	COMBINED ANNUAL DEBT SERVICE
2026	$ 470,000	$ 52,658		$ 307,400	$ 201,863	$ 32,500	$ 1,064,420
2027	480,000	44,339		307,400	201,863	29,472	1,063,073
2028	495,000	35,843		307,400	201,863	26,444	1,066,549
2029	500,000	27,081		307,400	201,863	23,416	1,059,760
2030	510,000	18,231		307,400	201,863	20,388	1,057,882
2031-2035	520,000	9,204	1,630,000	1,442,200	982,386	56,519	4,640,309
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
2046-2046			665,000	26,600	-	-	691,600
	$ 2,975,000	**$ 187,355**	**$ 7,685,000**	**$ 4,527,600**	**$ 2,166,634**	**$ 191,361**	**$ 17,732,950**

NOTE 6 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2025, 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 1/1/2025	Additions	Reductions	Ending Balance 12/31/2025	Due Within One Year
Revenue Bonds Payable - 2016 [1]	7,685,000	-		7,685,000	-
Revenue Bonds Payable - 2021	3,445,000		(470,000)	2,975,000	470,000
Compensated Absenses	286,787	29,326		316,113	51,531
DWSRF Loans	2,368,498		(201,863)	2,166,634	201,863
Pension Liability	124,894		(46,833)	78,061	
OPEB Liability	401,616		(98,495)	297,898	5,156
Total LT Liabilities	**$ 14,311,795**	**$ 29,326**	**$ (817,191)**	**$ 13,518,707**	**$ 728,550**

(1) Principal payments do not start until 2032

NOTE 7 – PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2025.

Aggregate Pension Amounts – All Plans	
Pension liabilities	$(78,061)
Pension assets	$ 327,123
Deferred outflows of resources	$ 458,951
Deferred inflows of resources	$(95,550)
Pension expense/expenditures	$(28,490)

State Sponsored Pension Plan

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's 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. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The PERS 1 and PERS 2/3 employer and employee contribution rates are developed by the Office of the State Actuary, adopted by the Pension Funding Council, and is subject to change by the Legislature. For part of the year, the PERS Plan 2/3 employer rate included a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plans defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2025 were as follows:

Employer Contribution Rates				
Timeframe	**Contribution Rate**	**PERS 1 UAAL**	**Admin Fee**	**Total Employer**
January – June	6.36%	2.55%	0.20%	9.11%
September - December	5.38%	0.00%	0.20%	5.58%
Plan	**Employee Contribution Rates**			
PERS 1	6.00%			
PERS 2	6.36% January – June and 5.38% July - December			
PERS 3	Varies 5% - 15%			

Judicial Benefit Multiplier (JBM) Program: The JBM Program provides judicial members of the Public Employees’ Retirement System (PERS) with an increased retirement benefit multiplier. It also requires employees to pay a higher contribution rate.

Plan	JBM Employee Contribution Rates
PERS 1	12.26%
PERS 2	15.90%
PERS 3	7.50% minimum

The District’s actual PERS plan contributions were $18,234 to PERS Plan 1 (including the UAAL contributions) and $85,554 to PERS Plan 2/3 for the year ended December 31, 2025.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined by an actuarial valuation completed as of June 30, 2025. 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 *2023 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2023 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2025. Plan liabilities were rolled forward from June 30, 2023, to June 30, 2025, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries’ Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. 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 of 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 their lifetime.

Change in Assumptions and Methods: OSA improved their modeling of benefits paid to retirees and beneficiaries in their month of death to better match current administrations.

Long-Term Expected Rate of Return

OSA selected a 7% long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) 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

The table below summarizes the 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, 2025. The inflation component used to create the table is 2.5% 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	19%	2.1%
Tangible Assets	8%	4.5%
Real Estate	18%	4.8%
Global Equity	30%	5.6%
Private Equity	25%	8.6%
	100%	

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7%. 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% was used to determine the total liability.

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%, as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	$ 131,721	$ 78,061	$ 31,001
PERS 2/3	$ 530,840	($ 327,123)	($ 1,031,749)

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

The District reported a proportionate share of the net pension liabilities and assets as follows:

Plan	Liability (or Asset)
PERS 1	$ 78,061
PERS 2/3	($ 327,123)

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

Plan	Proportionate Share 6/30/24	Proportionate Share 6/30/25	Change in Proportion
PERS 1	0.007029%	0.006621%	(0.000408%)
PERS 2/3	0.009100%	0.008572%	(0.000528%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2025 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.

Pension Expense

For the year ended December 31, 2025, the District recognized pension expense as follows:

	Pension Expense
PERS 1	($ 15,073)
PERS 2/3	($ 13,417)
TOTAL	($ 28,490)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

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	$	$(5,366)
Changes of assumptions	$	$
Contributions subsequent to the measurement date	$	$
TOTAL	**$**	**$(5,366)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$239,173	$
Net difference between projected and actual investment earnings on pension plan investments	$0	($ 73,666)
Changes of assumptions	$126,421	($ 9,033)
Changes in proportion and differences between contributions and proportionate share of contributions	$ 53,286	($ 7,485)
Contributions subsequent to the measurement date	$ 40,072	$0
TOTAL	**$458,952**	**($90,184)**

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2025	$ 5,121	$ 121,315
2025	($ 3,730)	$ 53,392
2026	($ 3,874)	$ 54,363
2027	($ 2,883)	$ 27,423
2028		$ 47,844
Thereafter		$ 24,358
TOTAL	**($ 5,366)**	**$ 328,696**

NOTE 8 – 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 2025 of $1,628,812.

NOTE 9 – RISK MANAGEMENT

North City Water District is a member of Enduris Washington (“Enduris” or “the Pool”) under an interlocal governmental agreement. Enduris was established as a Washington Risk Pool under RCW 48.62.031, allowing local government entities to self-insure risks independently or collectively, purchase insurance or reinsurance together, and contract for services like risk management, claims processing, and administration. Enduris is fully funded by its member participants. Members submit claims to the Pool, which evaluates coverage and manages the claims process.

For the fiscal year ending August 31, 2025, Enduris had 497 members from various special purpose districts across the state. Members make annual contributions to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. Membership requires a minimum one-year commitment, with 60 days' notice required to terminate before renewal. The Interlocal Governmental Agreement renews automatically unless withdrawal or termination options are exercised. Withdrawing or terminated members remain liable on a pro rata basis for any assessments levied against the membership during their period of membership, as if they were still a member.

The Enduris program offers various forms of joint self-insurance and reinsurance coverage for its members, including Liability coverage (general, auto, public officials’ errors and omissions, terrorism, employment practices), Property coverage (buildings, contents, equipment, boiler/machinery, business interruption), Auto Physical Damage, Cyber coverage, Pollution coverage, Crime Blanket coverage, Named Position coverage, Alliant Deadly Weapon Response Program (ADWRP) coverage, and Identity Fraud Reimbursement coverage. Blanket Accident Insurance is provided for specific participating districts. Pollution, Cyber, Blanket Accident, ADWRP, and Identity Fraud Expense Reimbursement coverage are claims-made and reported; Crime coverage is discovery-based; all other coverage is occurrence-based.

Members may pay a deductible or co-pay for each covered loss, as per the terms of their coverage. Each year, members receive a Memorandum of Coverage detailing their specific coverage, limits, and deductibles. In certain instances, the Pool may allow members to elect limits, coverage, deductibles, and co-pays specific to their needs. Enduris pays for covered losses above the member’s deductible or co-pay for the specific coverage, up to the Pool's self insured retention (SIR), and then uses excess/reinsurance from unrelated insurance companies to indemnify covered losses beyond the SIR up to the coverage maximum limit. Enduris issues an annual Financial Report that includes financial statements and other required supplementary information.

The latest Enduris Washington Financial Statements Audit Report is available on the SAO website. https://sao.wa.gov/reports-data/audit-reports

NOTE 10 – 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, 2025.

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$ 297,898
OPEB deferred outflows	$ 2,578
OPEB expenses/expenditures	($ 98,458)

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 $8,896 to the plan for the year ended December 31, 2025.

Employees Covered by Benefit Term - Membership in the PEBB plan for the District consisted of the following as of December 31, 2025.

Active employees	13
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled but not receiving benefits	3
Total	17

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 6.8%, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) that the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
	(5.8%)	(6.8%)	(7.8%)
Total OPEB Liability	$251,483	$297,898	$357,653

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) that the current rate.

	1%Decrease	Current Discount Rate	1%Increase
	(2.50%)	(3.50%)	(4.50%)
Total OPEB Liability	$348,188	$297,898	$257,372

Changes in the Total OPEB Liability

PEBB	
Total OPEB Liability at 1/1/2025	$ 401,616
Service Cost	$ 17,677
Interest	$ 16,376
Changes of benefit terms	$ 14.306
Differences between expected and actual experience and assumptions	($ 146,817)
Benefit payment	($ 5,260)
Other changes	
Total OPEB Liability at 12/31/2025	$ 297,898

The District recognized OPEB Expense for the years ended December 31, 2025 as follows:

Service Cost	$ 17,677
Interest Cost	$ 16,376
Change in Experience Data and Assumptions	($ 146,817)
Net Change in Total OPEB Liability	($ 103,718)

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

Methodology

Actuarial Valuation Date	6/30/2025
Actuarial Measurement Date	6/30/2025
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions	
Discount Rate[1]	
Beginning of Measurement Year	3.93%
End of Measurement Year	5.20%
Projected Salary Changes	3.25% + Service-Based Increases
Healthcare Trend Rates[2]	Initial rate ranges from about (4.5%)-9.5%, reaching an ultimate rate of approximately 3.8% in 2080.
Mortality Rates	
Base Mortality Table	PubG H – 2010 (General)
Age Setback	0 year
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Inflation Rate	2.40%
Post-Retirement Participation Percentage	60%
Percentage with Spouse Coverage	45%

[1]*Source: Bond Buyer General Obligation 20-Bond Municipal Index*
[2]*Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see 2024 PEBB OPEB Actuarial Valuation Report*
[3]*Based on the Consumer Price Index (CPI): Urban Wage Earners & Clerical Workers, U.S. City Average, WA – All Items.*

At December 31, 2025, 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	$2,578	$
TOTAL*	$2,578	$

Deferred outflows of resources of $2,578 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, 2025.

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	2021	2022	2023	2024	2025
Employer's proportion of the net pension liability (asset)	0.009463%	0.009500%	0.008886%	0.008703%	0.008552%	0.008070%	0.007745%	0.007936%	0.007238%	0.007029%	0.006621%
Employer's proportionate share of the net pension liability	$ 495,003	$ 510,195	$ 421,648	$ 388,679	$ 328,855	$ 284,915	$ 94,585	$ 220,967	$ 165,224	$ 124,894	$ 78,061
Employer's covered employee payroll	$ 1,124,803	$ 1,138,244	$ 1,117,446	$ 1,162,368	$ 1,200,687	$ 1,227,462	$ 1,190,174	$ 1,294,439	$ 1,297,767	$ 1,406,568	$ 1,435,141
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%	7.95%	17.07%	12.73%	8.88%	5.44%
Plan fiduciary net position as percentage of the total pension liability	59.1%	57.03%	61.24%	63.22%	67.12%	68.64%	88.74%	76.56%	80.16%	84.05%	89.07%

Plan PERS 2/3	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Employer's proportion of the net pension liability (asset)	0.012225%	0.012173%	0.011430%	0.011176%	0.011042%	0.010510%	0.009953%	0.010351%	0.009333%	0.009100%	0.008572%
Employer's proportionate share of the net pension liability	$ 436,806	$ 612,901	$ 397,138	$ 190,820	$ 107,255	$ 134,417					
Employer's proportionate share of the net pension assets							$ 991,479	$ 299,988	$ 382,530	$ 299,988	$ 327,123
Employer's covered employee payroll	$ 1,088,204	$ 1,138,244	$ 1,117,446	$ 1,162,368	$ 1,200,687	$ 1,227,462	$ 1,190,174	$ 1,294,439	$ 1,297,767	$ 1,406,568	$ 1,435,141
Employer's proportionate share of the net pension liability or assets as a percentage of covered payroll	40.14%	53.85%	35.54%	16.42%	8.93%	10.95%	83.31%	23.18%	29.48%	21.33%	22.79%
Plan fiduciary net position as percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%	120.29%	106.73%	107.02%	105.17%	105.53%

REQUIRED SUPPLEMENT INFORMATION (RSI)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
As of December 31:

Plan PERS 1	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Statutorily or contractually required contributions	$ 49,305	$ 54,942	$ 56,168	$ 60,064	$ 60,369	$ 60,369	$ 58,945	$ 52,513	$ 49,124	$ 45,637	$ 18,234
Contributions in relation to the statutorily or contractually required contributions	$ (49,305)	$ (54,942)	$ (56,168)	$ (60,064)	$ (60,369)	$ (60,369)	$ (58,945)	$ (52,513)	$ (49,124)	$ (45,637)	$ (18,234)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$ 1,123,885	$ 1,143,374	$ 1,111,928	$ 1,186,291	$ 1,221,325	$ 1,228,799	$ 1,260,970	$ 1,224,116	$ 1,358,088	$ 1,446,776	$ 1,460,121
Contributions as a percentage of covered employee payroll	4.39%	4.81%	5.05%	5.06%	4.94%	4.91%	4.67%	4.29%	3.62%	3.15%	1.25%

Plan PERS 2/3	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Statutorily or contractually required contributions	$ 65,333	$ 71,758	$ 78,634	$ 88,971	$ 94,314	$ 94,314	$ 97,321	$ 87,574	$ 81,609	$ 85,459	$ 85,554
Contributions in relation to the statutorily or contractually required contributions	$ (65,333)	$ (71,758)	$ (78,634)	$ (88,971)	$ (94,314)	$ (94,314)	$ (97,321)	$ (87,574)	$ (81,609)	$ (85,459)	$ (85,554)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employer payroll	$ 1,123,885	$ 1,143,374	$ 1,111,928	$ 1,186,291	$ 1,221,325	$ 1,228,799	$ 1,260,970	$ 1,224,116	$ 1,358,088	$ 1,446,776	$ 1,460,121
Contributions as a percentage of covered employee payroll	5.81%	6.28%	7.07%	7.50%	7.72%	7.68%	7.72%	7.15%	6.01%	5.91%	5.86%

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:

	2018	2019	2020	2021	2022	2023	2024	2025
Total OPEB Liability, beg of year	$ 604,116	$ 624,998	$ 669,705	$ 852,907	$ 793,263	$ 462,829	$ 386,100	$ 401,616
Service Cost	35,783	27,831	30,710	43,275	47,963	19,781	15,601	17,677
Interest	22,858	25,040	24,394	19,731	18,065	16,920	14,528	16,376
Changes in Experience Date and Assumptions	(34,897)	3,531	135,056	(115,828)	(386,607)	(104,087)	(7,200)	(146,817)
Changes in Benefit Terms								14,306
Benefit Payments	(2,862)	(11,695)	(6,958)	(6,822)	(9,855)	(9,343)	(7,413)	(5,260)
Other Changes								
Total OPEB Liability, end of year	**$ 624,998**	**$ 669,705**	**$ 852,907**	**$ 793,263**	**$ 462,829**	**$ 386,100**	**$ 401,616**	**$ 297,898**
Covered Employee Payroll	**$ 1,213,131**	**$ 1,175,903**	**$ 1,228,799**	**$ 1,260,970**	**$ 1,224,116**	**$ 1,358,088**	**$ 1,446,776**	**$ 1,460,121**
Total OPEB Liability as a Percentage of Covered Payroll	51.52%	56.95%	69.41%	62.91%	37.81%	28.43%	27.76%	20.40%

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,

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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