



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Soos Creek Water and Sewer District

For the period January 1, 2019 through December 31, 2019

Published December 24, 2020

Report No. 1027483





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

December 24, 2020

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

Report on Financial Statements

Please find attached our report on the Soos Creek Water and Sewer District's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S 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**

**Soos Creek Water and Sewer District
January 1, 2019 through December 31, 2019**

Board of Commissioners
Soos Creek Water and Sewer District
Renton, 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 Soos Creek Water and Sewer District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2020.

As discussed in Note 18 to the 2019 financial statements, in February 2020, a state of emergency was declared, which could have a negative financial effect on the District.

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.



Pat McCarthy

State Auditor

Olympia, WA

December 16, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Soos Creek Water and Sewer District January 1, 2019 through December 31, 2019

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Soos Creek Water and Sewer District, as of and for the year ended December 31, 2019, 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 Soos Creek Water and Sewer District, as of December 31, 2019, 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.

Matter of Emphasis

As discussed in Note 18 to the financial statements, in February 2020, a state of emergency was declared, which could have a negative financial effect on the District. 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 December 16, 2020 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.



Pat McCarthy

State Auditor

Olympia, WA

December 16, 2020

FINANCIAL SECTION

Soos Creek Water and Sewer District January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios – 2019

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2019

Soos Creek Water and Sewer District (the District) is a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington, Title 57, to provide water and sewer services to specific areas in southeast King County, Washington. The District is not a segment or component of any other local government. Soos Creek Management Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the District's financial activity
- Identify changes in the District's financial position
- Identify any material deviations from the approved budget

The Management Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. Therefore, it should be read in conjunction with the District's financial statements.

Financial Highlights

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflows of resources at the close of 2019 by \$261,483,873.
- The District's net position from the Statement of Revenues, Expenses and Changes in Net Position increased by \$9,717,433.
- The District posted income before contributions of \$2,206,367 in 2019. Growth in sewer and water connections increased with the growth in residential construction.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows found after Management's Discussion and Analysis, provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Reporting the District as a Whole

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information about the District as a whole and about its activities in a way that helps communicate the financial condition of the District. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Except for interest and penalties on ULID assessments (See Note 1), all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the District's net position, and changes in them, as well as how cash was generated and used during the year. The District's net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. It is one way to measure the District's financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial condition is improving or deteriorating. You also need to consider other non-financial factors, such as the physical condition of the operating infrastructure; and changes in laws, that impact water and sewer districts to assess the overall financial health of the District.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2019

The District's annual financial report is presented in four parts:

1. This Management's Discussion and Analysis as required supplementary information
2. Financial statements
3. Notes to the financial statements
4. Required Supplementary Information

Financial Statements

The Financial Statements are presented in conformity with the Governmental Accounting Standards Board (GASB) Statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. The District only has one fund type; proprietary funds.

Proprietary funds are used by governments to account for their business-type activities and use the same basis of accounting utilized in private industry. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services rendered.

The District has one type of proprietary fund; Enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services and that fee is set to recover the costs of operations, including depreciation. The District currently has only one enterprise fund. The District is not legally required to adopt a budget; however, the District does so as a tool for monitoring and controlling revenues and expenses.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the financial statements.

Financial Analysis

The statement of net position can serve as a useful indicator of the District's financial position. The District's net position (assets plus deferred outflows in excess of liabilities plus deferred inflows) at December 31, 2019 totaled \$261,483,873. Following is a condensed version of the statement of net position.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2019

Condensed Statement of Net Position

	2019	2018
Assets		
Current	\$ 35,630,857	\$ 32,205,487
Restricted	7,846,886	5,470,543
Non-current assets		
Receivable	52,652	110,557
Capital assets (net of depreciation)	<u>225,927,776</u>	<u>223,721,267</u>
Total Assets	269,458,170	261,507,854
Deferred Outflows of Resources - Pensions	343,595	296,481
Deferred Outflows of Resources - OPEB	24,006	
Current liabilities	3,266,151	3,714,022
Liabilities on Restricted Assets	732,176	678,548
Net Pension Liabilities	1,214,017	1,655,743
Net OPEB Liabilities	2,026,506	1,998,389
Other Non-current Liabilities	<u>419,921</u>	<u>1,333,173</u>
Total Liabilities	7,658,771	9,379,875
Deferred Inflows of Resources - Pensions	683,128	607,336
Net position:		
Net investment in capital assets	225,028,222	222,009,878
Restricted	7,861,772	5,506,341
Unrestricted	<u>28,593,879</u>	<u>24,300,904</u>
Total Net Position	<u>\$ 261,483,873</u>	<u>\$ 251,817,123</u>

See Note 13 for information on pensions.

See Note 16 for information on OPEB.

The District's net position increased by \$9,717,433. The District posted income before contributions of \$2,202,367 in 2019. Growth in sewer and water connections increased with the growth in residential construction. At yearend 2019, the District served 39,060 sewer equivalent residential units (ERUs) and 23,624 water ERUs, an increase over 2018 of 0.68% in sewer ERUs and 0.58% in water ERUs.

Changes in Net Position

At the end of 2019, the net position of the District was \$261,483,873. Of this amount \$225,028,222 was invested in capital assets (net of related debt), \$28,593,879 was unrestricted assets and available for meeting the District's ongoing obligations, and \$7,861,772 was restricted assets. The restricted asset amount was composed of \$6,968,248 set aside for capital projects related to District growth and \$893,524 reserved for bond payments.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2019

The District's beginning Net Position decreased \$50,683 due to a change in accounting estimate (see Note 2 for information on Restricted Assets). The District's Net Position increased \$9,717,433. This increase was due to Income of \$2,202,367 and Capital Contributions, also called Contributions in Aid of Construction, of \$7,511,066. Developers installed \$5,240,517 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$2,270,549 in system connection fees were collected.

District total liabilities decreased \$1,721,104 in 2019. This change was the result of a decrease of \$458,235 in current liabilities created by a reduction in accounts payable and increase in developer deposits, a decrease of \$441,726 in pension liabilities (see Note 13 for information on pensions), an increase OPEB liabilities of \$28,117 (see Note 16 for information on OPEB), and a \$849,260 decrease in other non-current liabilities due primarily to scheduled principal reductions in bond and loan balances.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018
Operating Revenues:		
Sewer	\$ 31,465,853	\$ 30,416,653
Water	9,497,288	9,558,587
Other	2,650,927	2,543,383
Non-operating Revenues	963,052	516,973
Total Revenues	44,577,119	43,035,596
Operating Expenses	42,295,408	40,830,754
Non-operating Expenses	75,345	244,946
Total Expenses	42,370,753	41,075,700
Income Before Contributions	2,206,367	1,959,896
Capital Contributions	7,511,066	10,075,664
Change in Net Assets	9,717,433	12,035,560
NET POSITION, JANUARY 1, 2019, as previously reported	251,817,123	241,748,498
Change in Accounting Estimate/Principle	(50,683)	(1,966,935)
NET POSITION, JANUARY 1, 2019, as restated	251,766,440	239,781,563
Net Position, Dec. 31	<u>\$ 261,483,873</u>	<u>\$ 251,817,123</u>

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2019

Total District revenues increased \$1,541,523. Created by an average rate increase of 1.8% in 2019 plus a 0.68% increase in the customer base, sewer revenue made up \$1,049,199 of the total revenue increase. In addition, water revenue decreased \$61,299, primarily the result of a 2.99% consumption decrease which is partially offset by an average rate increase of 2.1%.

The \$1,488,660 year-over-year increase in operating expenses was mainly due to an increase of \$677,082 in sewage treatment costs, a \$83,065 increase in purchased water, a \$278,723 decrease in maintenance costs, and increased depreciation expense of \$354,903.

Capital Assets

The District's total capital assets at yearend 2019, including work in progress, exceeded \$225 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Significant capital asset activity during the year included:

- The District added \$5,476,085 (net) in sewer infrastructure and other assets. Of this total, \$4,362,778 represented 16 completed developments that connected to the District's sewer system
- The District added \$4,971,239 (net) in water infrastructure and other assets. Of this total, \$811,735 represented six completed developments that connected to the District's water system.
- At yearend 2019, work in progress totaled \$5,580,010. Of this total \$451,914 was for sewer system projects and \$5,128,096 was water system projects.

Work in progress at yearend included:

	<u>2019</u>
Water Meter Change-out	2,782,410
GIS Implementation	1,182,822
Lift Station 24B Removal	178,916
Reservoir #6 Seismic Work	342,316
PRV 2 Replacement	461,383
Boulevard Lanes Ph 1	140,541
District Network Upgrade	154,966
Shake Alert Pilot	252,208
Other projects	<u>84,448</u>
	<u>\$ 5,580,010</u>

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

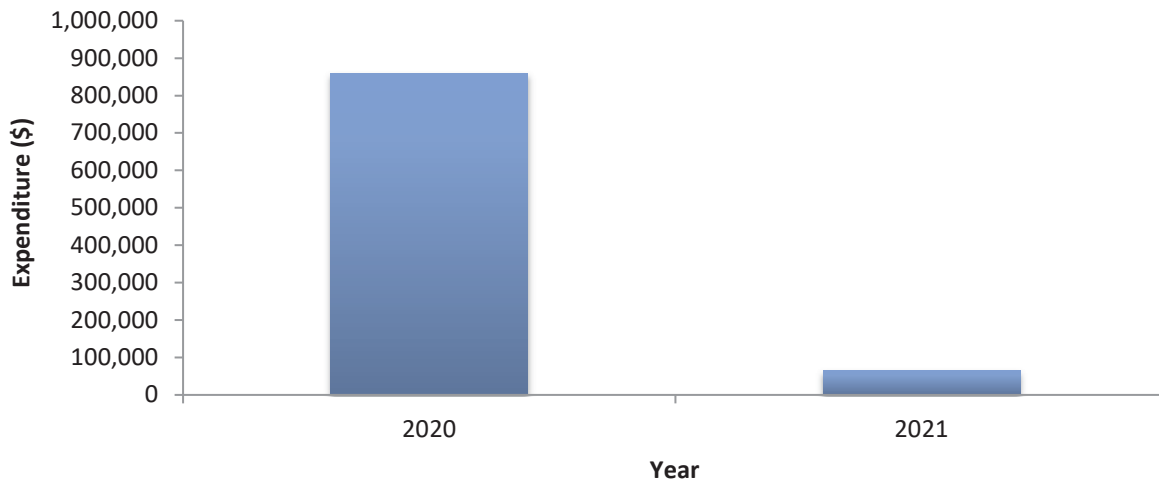
December 31, 2019

Long-term Debt

At yearend 2019, the District's long-term debt, including current principal portion, stood at \$899,553, composed of \$677,939 in revenue bonds (net of bond premium) and \$221,615 in loans from the Washington State Public Works Trust Fund. These borrowed funds were used to complete projects that expanded, upgraded, and replaced sewer and water infrastructure. During 2019, long-term debt decreased \$807,623, the result of scheduled payments on debt principal.

The District is obligated to pay a total of \$945,761 in principal and interest on bonds and loans from 2020 through 2021. Standard & Poor's rates the District's revenue bonds AA+.

Annual Debt Service



See Notes 4, 5, 9, 10 and 11 of the notes to the financial statements for more information on capital assets and long-term debt.

Outlook

The District's ongoing capital improvement plan calls for the expenditure of \$29.9 million through 2024. It is the District's intent to fund these capital expenditures through a combination of utility receipts, sewer and water system connection fees, and assets currently on hand. The District has no current plans for additional revenue bond financing; however, should they become available the District would pursue grants and/or additional low-interest rate loans.

Due to the state of emergency declared by the Governor of the State of Washington in response to the spread of a deadly new virus, the District continues to monitor its revenues and cash flow to see the impact the District may face as a result of this event.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report, or requests for additional information, may be addressed to the Finance Manager of the District at 14616 SE 192nd Street, Renton, WA 98058-9420.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2019

	2019
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents - Notes 1 & 3	\$ 27,160,196
Investments - Note 3	136,914
Receivables - Note 1	7,489,333
Inventory - Note 1	631,146
Prepays	213,268
Restricted assets - Notes 2 & 3	
Capital Improvement Fund	
Cash and cash equivalents	6,946,974
Receivables	13,735
Revenue Bond Fund	
Cash and cash equivalents	884,558
Investments	0
Receivables	1,619
TOTAL CURRENT ASSETS	43,477,743
NON-CURRENT ASSETS	
Contractual obligation receivable - Note 17	31,541
Assessments receivable - Note 2	13,253
Accounts receivable general facility and connection charges - Note 7	7,857
TOTAL NON-CURRENT ASSETS	52,652
CAPITAL ASSETS - Notes 1 & 4	
Capital assets not being depreciated:	
Land and land rights	2,501,454
Intangible property rights	1,800,706
Construction work in process - Note 5	5,580,010
Capital assets being depreciated:	
Utility plant in service	348,365,460
Less accumulated depreciation	(132,319,855)
TOTAL CAPITAL ASSETS	225,927,776
TOTAL NON-CURRENT AND CAPITAL ASSETS	225,980,428
TOTAL ASSETS	269,458,170
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	343,595
Deferred outflows related to OPEB	24,006
TOTAL DEFERRED OUTFLOWS OF RESOURCES	367,601

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2019

	<u>2019</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	2,522,873
Current portion of Public Works Trust Fund loans	221,615
Accrued interest payable on Public Works Trust Fund loans	788
Deposits of developers and customers - Note 6	312,763
Contract retainage - Note 8	208,112
Payables from Restricted Assets:	
Accounts payable - Capital Improvement Fund	319
Current portion of revenue and refunding bonds	677,939
Current portion OPEB liability	48,012
Accrued interest payable on revenue and refunding bonds	<u>5,906</u>
TOTAL CURRENT LIABILITIES	3,998,327
NON-CURRENT LIABILITIES	
Accrued vacation and sick leave - Note 1	419,921
Revenue and refunding bonds, net of current portion, bond discount and premium - Notes 9 & 10	0
Public Works Trust Fund loans, net of current portion - Note 11	0
Net pension liability - Note 13	1,214,017
OPEB liability, net of current portion - Note 16	<u>2,026,506</u>
TOTAL NON-CURRENT LIABILITIES	3,660,444
TOTAL LIABILITIES	7,658,771
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	683,128
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>683,128</u>
NET POSITION	
Net investment in capital assets	225,028,222
Restricted	7,861,772
Unrestricted	<u>28,593,879</u>
TOTAL NET POSITION	<u><u>\$ 261,483,873</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION Year ended December 31, 2019

	2019
OPERATING REVENUES	
Sewer	\$ 31,465,853
Water	9,497,288
Street lights	253,773
Other operating revenue	2,397,154
TOTAL OPERATING REVENUES	<u>43,614,067</u>
OPERATING EXPENSES	
Sewage treatment	20,460,398
Water purchased for resale	3,696,563
Street light power	238,787
Maintenance	4,659,952
Business and accounting	2,118,116
Administration	2,496,396
Business and payroll taxes	1,006,022
Depreciation	7,619,173
TOTAL OPERATING EXPENSES	<u>42,295,408</u>
OPERATING INCOME (LOSS)	1,318,659
NON-OPERATING REVENUES (EXPENSES)	
Assessment interest	1,310
Investment interest	868,019
Gain on sale of surplus property	93,724
Interest paid on debt	(41,200)
Loss on abandonment of utility plant	(34,145)
TOTAL NON-OP REVENUES (EXPENSES)	<u>887,707</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	2,206,367
Contributions in aid of construction	<u>7,511,066</u>
CHANGE IN NET POSITION	9,717,433
NET POSITION, JANUARY 1, 2019, as previously reported	251,817,123
Net effect of Change in Accounting Estimate	(50,683)
NET POSITION, JANUARY 1, 2019, as restated	251,766,440
NET POSITION, DECEMBER 31	<u><u>\$ 261,483,873</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2019

	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 43,479,602
Payments to suppliers	(30,616,601)
Payments to employees	<u>(5,171,465)</u>
 NET CASH FROM OPERATING ACTIVITIES	 7,691,536
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(4,625,279)
Principal and interest paid on revenue bonds	(694,750)
Principal and interest paid on loans	(125,609)
Proceeds from assessments	4,620
Proceeds from deferred facility and connection charges	24,473
Proceeds from sale of capital assets	93,724
Cash contributed in aid of construction	<u>2,270,549</u>
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 (3,052,272)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>710,343</u>
 NET CASH FROM INVESTING ACTIVITIES	 710,343
 NET CHANGE IN CASH BALANCE	 5,349,607
CASH BALANCE AT BEGINNING OF YEAR	<u>29,642,121</u>
CASH BALANCE AT END OF YEAR	<u><u>\$ 34,991,728</u></u>
 CASH BALANCE AT END OF YEAR CONSIST OF:	
Restricted	7,831,532
Unrestricted	<u>27,160,196</u>
 TOTAL CASH BALANCE	<u><u>\$ 34,991,728</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2019

	<u>2019</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,318,659
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation expense	7,619,173
Pension expense	(413,048)
OPEB expense	39,463
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(166,006)
(Increase) decrease in contractual receivable	31,542
(Increase) decrease in inventory	(222,301)
(Increase) decrease in prepaid expenses	9,157
Increase (decrease) in accounts payable	(821,682)
Increase (decrease) in accrued vacation and sick leave	(13,698)
Increase (decrease) in deposits of developers and customers	195,389
Increase (decrease) in contract retainage	<u>114,889</u>
TOTAL ADJUSTMENTS	6,372,877
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 7,691,536</u></u>
NON-CASH CAPITAL FINANCING ACTIVITIES:	
Developer contributed capital	<u><u>\$ 5,240,517</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Soos Creek Water and Sewer District (the District) is to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who are responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units except for interest and penalties earned on utility local improvement district assessments which are recorded as received. This practice is not in accordance with generally accepted accounting principles, but does not result in a material difference. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Reporting Entity

The District is a municipal corporation formed in King County, State of Washington, governed by an elected five-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. The District has no component units.

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 RCW Chapter 43.09. The District uses the BARS System of Accounts for governmental units.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, except that accrued assessment interest is not reflected therein. The District's financial statements include the financial position and results of all operations that the District manages.

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing services related to the District's water and sewer systems. Operating expenses include costs associated with providing District services, general and administrative expenses, and depreciation on assets. All revenues and expenses not meeting these definitions are classified as non-operating.

Cash and Cash Equivalents

The District presents its cash flow statements using the direct method. For purposes of the statements of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. For more information, see Note 3, Deposits and Investments.

Cash and cash equivalents at the balance sheet date consisted of the following:

	<u>2019</u>
Cash in bank	\$ 45,900
Cash in bank lockbox facility	119,869
Deposits in transit	8,960
Cash in King County Investment Pool - Capital Improvement Fund	6,946,974
Cash in King County Investment Pool - Revenue Bond Fund	884,558
Cash in King County Investment Pool	<u>26,985,467</u>
Total	<u>\$ 34,991,728</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Accounts Receivable

Unbilled utility service receivables are recorded at yearend. The District takes advantage of its authority to file liens against properties with delinquent utility balances. Such liens are recorded at the King County Recorder's Office and are maintained until balances are paid in full. Interest is assessed until these accounts are paid. For this reason, the District does not provide an allowance for doubtful accounts, all accounts are considered collectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

The following amounts were due the District at December 31:

	<u>2019</u>
Utilities	\$7,294,778
Developers	99,842
Contractual obligation, current portion	31,542
Interest	54,601
Other	<u>8,570</u>
Total	<u>\$7,489,333</u>

Inventories

Inventories are valued at the average acquisition cost, which approximates market value. The District conducts an annual physical inventory count. Inventories consisted of the following as of December 31:

	<u>2019</u>
Materials and supplies	\$475,851
Small tools	<u>155,295</u>
Total	<u>\$631,146</u>

Utility Plant and Depreciation

Utility plant in service and other capital assets are stated at cost where the historical cost is known. Where historical cost is not known, assets are recorded at the District engineer's estimated cost. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

Expenditures for maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Renewals and betterments that materially extend the life of the assets are capitalized. At the time property is sold, retired or otherwise disposed of, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Depreciation expense for the year ended December 31, 2019 was \$7,619,173. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs related to projects ultimately constructed are transferred to utility plant; charges related to abandoned projects are expensed.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Capitalization of Expenses

The District incurs engineering, legal, and other expenses in connection with the design and construction of utility plant. These costs are capitalized and recorded as a cost of utility plant. Expenditures for capital assets that exceed \$5,000, including capital leases and repairs that extend useful lives in excess of one year are capitalized. Total interest costs incurred for the years ending December 31, 2019 was \$41,200; there was no capitalized interest in 2019.

Income and Property Taxes

The District is a municipal corporation and as such is exempt from income and property taxes.

Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefits as earned. Sick leave is accrued at 50% of the amount due, as that portion would be paid on termination. The liabilities for unpaid vacation and sick leave benefits at December 31, 2019 was \$419,921.

Vacation

Each full-time employee receives vacation benefits as follows:

<u>Years of Continuous Service</u>	<u>Monthly Vacation Credit</u>	<u>Equivalent Annual Vacation Earned</u>
First year	1 day	12 working days
After two years	1.083 days	13 working days
After three years	1.167 days	14 working days
After five years	1.25 days	15 working days
After ten years	1.50 days	18 working days
After fifteen years	1.67 days	20 working days
After twenty years	1.75 days	21 working days
After twenty-five years	1.833 days	22 working days

During the first year of employment, an employee is not entitled to take any vacation. If an employee's employment with the District terminates prior to completing one year of employment, the employee is not entitled to any prorated vacation pay. During the second and subsequent years of employment, vacation will accrue and be eligible on a continuing basis each month. An employee may not accumulate more than 1.5 times his/her annual vacation days. At the end of the year, or at the time of termination or retirement, vacation accruals will be adjusted accordingly. Each December 31st all vacation accruals in excess of the allowable amount are dropped.

Sick Leave

Each fulltime regular employee of the District accrues sick leave benefits at the rate of one day per calendar month, beginning with the first calendar month following the commencement of employment. The sick leave accruing each month is credited to the employee at the end of that month. The amount of accumulated sick leave is limited to 520 hours.

Upon retirement, an employee receives 50% of any remaining unused accumulated sick leave at the employee's then current rate of pay, less the last two years accruals.

Upon the death of an employee who leaves a surviving spouse or surviving minor child, the surviving spouse or surviving minor child, but not both, is entitled to 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

An employee who voluntarily terminates, and is not on probation at the time of termination, receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay. An employee terminated by the District without cause receives 50% of the employee's unused accumulated sick leave at the employee's then current rate of pay; terminated with cause receives no sick leave accrual.

Pensions

For purposes of measuring the net pension liability, deferred outflows and 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 - RESTRICTED ASSETS

The King County Treasurer's Office maintains cash, investments, and bond funds. For more information, see Note 3, Deposits and Investments.

Revenue Bond Funds

In accordance with bond resolutions and certain related agreements, several restricted funds were established. Assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted bond funds included the following at the balance sheet date:

	<u>2019</u>
Bond fund cash	\$ 884,558
Accrued interest receivable	<u>1,619</u>
Total	<u>\$ 886,177</u>

These restricted funds are for redemption of revenue bonds and related interest costs. Restricted bond fund assets have decreased due to a change in accounting estimate which required a restatement of Net Position shown on the face of the financial statements in the amount of \$50,653. Restricted bond fund assets shown on the balance sheet included the following investments:

	<u>2019</u>
King County Investment Pool	\$ 884,558
Total	<u>\$ 884,558</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Assessments Receivable

Assessment levies are recorded as filed with the King County Treasurer for Utility Local Improvement District (ULID) projects, payments are deposited to the revenue bond fund. The following sewer assessments were outstanding as of the balance sheet date:

	<u>2019</u>
ULID No. 107	<u>12,253</u>
Total	<u>\$ 12,253</u>

Special Funds

In accordance with District resolutions to conform with current law, separate restricted funds are required. Assets held in these funds are restricted for specific uses, including construction and replacement of utility plant. Restricted funds included the following special funds at the balance sheet date:

	<u>2019</u>
Capital Improvement Fund	
King County Investment Pool	\$ 6,946,974
Interest receivable	<u>13,735</u>
	<u>\$ 6,960,709</u>

Restricted and special fund assets shown on the balance sheet included the following investments:

	<u>2019</u>
King County Investment Pool	
Revenue Bond Fund	\$ 884,558
Capital Improvement Fund	<u>6,946,974</u>
	<u>\$ 7,831,532</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

The District's *ex officio* treasurer, King County, maintains cash and investments. In accordance with state investment laws, the District has entered into a formal inter-local agreement with King County to have funds not required for immediate expenditure be invested in the King County Investment Pool (Pool).

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

As of December 31, 2019, the District had the following investments in the Pool:

Investment	Par Value	Fair Value	Effective Duration
Main pool	\$ 34,778,366	\$ 34,927,913	0.92 years
Impaired pool	38,633	26,000	
Total	\$ 34,816,999	\$ 34,953,913	

Impaired Investments. As of Dec. 31, 2019, 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 one commercial paper asset that was part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal (maximum risk of loss) on December 31, 2019 was \$38,633; the fair value of these investments on December 31, 2019 was \$26,000.

Interest Rate Risk. As of December 31, 2019, the Pool's average duration was 0.92 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 Dec. 31, 2019, 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, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Custodial Credit Risk. The risk associated with the failure of a depository financial institution is custodial credit risk. In the event of a depository financial institutions' failure, it is the risk that the District would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The District minimizes custodial credit risk by following the restrictions set forth in state law.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4 – UTILITY PLANT

Major costs for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Utility plant in service is recorded at cost. Donations by developers are recorded at the donor cost.

Utility plant activity for the year ended December 31, 2019, was as follows:

	Balance Dec. 31, 2018	Increase	Decrease	Balance Dec. 31, 2019
Utility plant not being depreciated:				
Land & land rights	\$ 2,491,454	\$ 10,000	\$ -	\$ 2,501,454
Intangible property rights	1,800,706	0	0	1,800,706
Construction in progress	6,655,558	4,602,495	5,678,043	5,580,010
Total	10,947,718	4,612,495	5,678,043	9,882,170
Utility plant being depreciated:				
Sewer collection mains & pipes	193,117,681	4,362,778	36,325	197,444,135
Water transmission mains & pipes	70,996,793	4,628,566	143,825	75,481,535
Pumping stations & reservoirs	51,417,273	400,036	0	51,817,309
Buildings	8,172,029	0	0	8,172,029
Machinery, equipment, & other	14,224,361	1,533,997	307,905	15,450,453
Total	337,928,138	10,925,377	488,054	348,365,460
Less accumulated depreciation:				
Sewer collection mains & pipes	67,709,825	3,827,083	2,179	71,534,729
Water transmission mains & pipes	24,208,781	1,383,403	143,824	25,448,360
Pumping stations & reservoirs	18,664,662	1,667,702	0	20,332,364
Buildings	2,572,531	179,891	0	2,752,422
Machinery, equipment, & other	11,998,788	561,096	307,904	12,251,980
Total	125,154,590	7,619,175	453,907	132,319,855
Total depreciable assets, net	212,773,548	3,306,202	34,147	216,045,605
Total capital assets, net	\$ 223,721,267	\$ 7,918,697	\$ 5,712,190	\$ 225,927,776

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 5 - WORK IN PROGRESS

Work in progress represents expenditures to-date on projects authorized by the Board of Commissioners. Costs are accumulated on projects until completed and accepted by the Board. Upon acceptance by the Board, the projects are transferred to Utility Plant.

Work in progress at December 31, 2019 was composed of the following:

	<u>2019</u>
Water Meter Change-out	\$ 2,782,410
GIS Implementation	1,182,822
Lift Station 24B Removal	178,916
Reservoir #6 Seismic Work	342,318
PRV 2 Replacement	461,383
Boulevard Lanes Ph 1	140,541
District Network Upgrade	154,966
Shake Alert Pilot	252,208
Other projects	<u>84,446</u>
	<u>\$ 5,580,010</u>

NOTE 6 - DEPOSITS OF DEVELOPERS AND CUSTOMERS

The District requires developers and customers to deposit funds upon beginning a project to which charges for District services are applied.

The following deposits of developers and customers were on hand at December 31:

	<u>2019</u>
Guaranty deposits	\$ 125,155
Developer easement deposits	69,521
Construction inspection deposits	30,619
Main extension deposits	(1,418)
Prepaid connection charges	14,174
Prepaid sewer area charges	5,350
Customer deposits	68,600
Prepaid water area charges	<u>762</u>
Total	<u>\$ 312,763</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 7 - ACCOUNTS RECEIVABLE GENERAL FACILITY CHARGES AND SPECIAL CONNECTION CHARGES

The District has recorded as receivable unpaid general facility charges and connection charges. The payment agreements include an interest rate of 6.0% with final payments due in 2020. The total general facility and special connection charge balances due December 31, 2019 were \$7,857.

NOTE 8 – CONTRACT RETAINAGE

The following amounts were due to contractors for District construction contracts at December 31:

	<u>2019</u>
Kar Vel Construction	\$ 190,393
Bonner Brothers	<u>17,719</u>
	<u>\$ 208,112</u>

NOTE 9 – REVENUE BONDS

Water and Sewer Revenue Bonds, 2011

The District issued \$5,375,000 of Water and Sewer Revenue Bonds, 2011, dated March 16, 2011. The bonds were issued to pay a portion of the costs to construct and equip sewer Lift Station 11B and to pay a portion of the costs of issuance of the Bonds. The Bonds are fully registered as to both principal and interest and bear interest from March 16, 2011, payable semiannually on March 1 and September 1. The District's revenue bonds are rated AA+ by Standard & Poor's.

The maturity and interest schedule for the remaining 2011 Bonds is as follows:

Maturity Schedule for 2011 Bonds

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	<u>675,000</u>	<u>23,625</u>	<u>698,625</u>
	<u>\$ 675,000</u>	<u>\$ 23,625</u>	<u>\$ 698,625</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Summary

Summary of Revenue Bonds Outstanding and accrued interest thereon as of December 31:

2019	
Principal	Accrued Interest
\$ 675,000	\$ 5,906

NOTE 10 – PREMIUM ON BOND ISSUES

Bond Premium Amortization

The District, upon issuance of the 2011 Revenue Bonds, received \$223,100 in offering premium. The District is amortizing the bond premium in a systematic fashion over the life of the bonds. The remaining premium, \$2,939 as of December 31, 2019, will be recorded as interest on revenue bonds.

NOTE 11 - PUBLIC WORKS TRUST FUND LOANS

2001 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on May 4, 2001, to obtain a loan of \$1,224,484.

The loan bears interest at one-half of one percent (0.5%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2021. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of the Meridiana Sewer Extension and Water Main Project.

2000 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on March 30, 2000, to obtain a loan of \$1,779,000.

The loan bears interest at one percent (1.0%) per annum on the outstanding principal balance. The term of the loan is twenty (20) years, with the final payment due July 1, 2020. The loan is being repaid solely from utility revenues. The first loan repayment under the agreement was due July 1, 2000, and subsequent installments are due on July 1 of each year during the term of the loan.

The proceeds were used for the construction of Lift Station 38 and the Witte Road conveyance.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Summary

Public Works Trust Fund loans at the balance sheet date consisted of the following:

	<u>2019</u>
Balance	\$ 221,615
Less: current portion	<u>(157,623)</u>
Long term debt	<u>\$ 63,992</u>
Accrued interest payable on loans	\$ 788

The following annual debt service costs will be due on Public Works Trust Fund loans:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 157,623	\$ 1,576	\$ 159,199
2021	<u>63,992</u>	<u>320</u>	<u>64,312</u>
Total	<u>\$ 221,614</u>	<u>\$ 1,897</u>	<u>\$ 223,511</u>

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	<u>Balance Dec. 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Dec. 31, 2019</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 1,325,000	\$ -	\$ 650,000	\$ 675,000	\$ 675,000
Plus Bond Premium	7,151	-	4,212	2,939	2,939
Total Bonds Payable	<u>1,332,151</u>	<u>-</u>	<u>654,212</u>	<u>677,939</u>	<u>677,939</u>
Public Works Trust Fund Loans	379,238	-	157,623	221,615	157,623
Compensated Absences	433,619	-	13,698	419,921	-
Pension Obligations	1,655,743	-	441,726	1,214,017	-
OPEB Obligations	<u>2,011,049</u>	<u>63,469</u>	<u>-</u>	<u>2,074,518</u>	<u>48,012</u>
Total Long-term Liabilities	<u>\$ 5,275,579</u>	<u>\$ 63,469</u>	<u>\$ 1,267,259</u>	<u>\$ 4,608,009</u>	<u>\$ 883,574</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 13 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (1,214,017)
Pension assets	0
Deferred outflows of resources	345,159
Deferred inflows of resources	(683,126)
Pension expense/expenditures	6,588

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available 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.

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.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January – June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

in the defined contribution portion of their plan. As of December 31, 2019, the District had no employees in PERS Plan 3.

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 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January – June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
July – December 2019:		
PERS Plan 1	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.86%	7.90%

The District's actual PERS plan contributions were \$171,716 to Plan 1 and \$247,921 to Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

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

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, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

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

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (Both plans use 7.5 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2019, 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%
	100%	

SOOS CREEK WATER AND SEWER DISTRICT

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Sensitivity of NPL

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 -6.40%	Current Discount Rate	1% Increase -8.40%
PERS 1	\$ 1,164,896	\$ 930,191	\$ 726,554
PERS 2/3	\$ 2,176,829	\$ 283,826	\$ (1,269,509)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the District reported a total pension liability of \$1,214,017 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 930,191
PERS 2/3	\$ 283,826

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.026059%	0.024190%	-0.001869%
PERS 2/3	0.028812%	0.029220%	0.000408%

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

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

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (57,476)
PERS 2/3	64,064
TOTAL	\$ 6,588

SOOS CREEK WATER AND SEWER DISTRICT

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December 31, 2019

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, 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	0	0
Net difference between projected and actual investment earnings on pension plan investments	0	(62,145)
Changes of assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	96,313	0
TOTAL	\$ 96,313	\$ (62,145)
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	81,317	(61,021)
Net difference between projected and actual investment earnings on pension plan investments	0	(413,134)
Changes of assumptions	7,268	(119,084)
Changes in proportion and differences between contributions and proportionate share of contributions	33,956	(27,742)
Contributions subsequent to the measurement date	126,305	0
TOTAL	\$ 248,846	\$ (620,981)

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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, 2020. 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
2020	\$ (13,719)
2021	(32,496)
2022	(11,596)
2023	(4,334)
2024	0
Thereafter	0

Year ended December 31	PERS 2/3
2020	\$ (124,857)
2021	(210,323)
2022	(92,323)
2023	(48,615)
2024	(25,260)
Thereafter	2,939

NOTE 14 –HEALTHCARE REIMBURSEMENT ACCOUNT

Description of the Plan

The District adopted a healthcare reimbursement account VEBA plan (HRA/VEBA) effective January 1, 2001. The intention of the District is that the HRA/VEBA qualify as a tax-exempt trust as authorized by Internal Revenue Code section 501(c)(9). The HRA/VEBA is a pre- and post-retirement, tax-exempt, medical expense reimbursement account.

Contributions

The HRA/VEBA accounts are funded in two ways, through annual sick leave cash-outs and through medical and dental benefits equalization.

Sick Leave Cash-outs. In January of each year, annual net sick leave (annual hours earned less hours used) is deposited to the employees' HRA/VEBA accounts. The number of sick leave hours and the employees' rate of pay are as of December 1 of the prior year. The HRA/VEBA deposit schedule for fulltime employees is as follows:

Accumulated Sick Leave as of December 1	Deposit to HRA/VEBA Account
0 to 167 hours	0
168 to 300 hours	25% of annual net sick leave (24 hours max)
301 to 520 hours	50% of annual net sick leave (48 hours max)
> 520 hours	100% of sick leave accrual over 520 hours

The deposit schedule for regular part-time employees would be on a pro-rated basis.

Benefits Equalization. The District determined that it was prudent to pay all employees the same medical and dental insurance benefit regardless of marital and/or family status. Those employees that waive medical and/or dental insurance coverage offered by the District for spouses and/or children receive an amount equal to the

SOOS CREEK WATER AND SEWER DISTRICT

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difference between full coverage (employee, spouse, and children) and their elected coverage. This difference is deposited monthly into the employees' HRA/VEBA accounts.

The District's 2019 contributions to the employees' HRA/VEBA accounts totaled \$471,727. Employees are always 100% vested in their HRA/VEBA accounts.

NOTE 15 – RISK MANAGEMENT

Property and Liability Insurance

The District is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors and omissions, contractual actions, natural disasters, environmental regulations, and other third-party liabilities. The District has implemented programs to protect against accidental and criminal losses that would significantly affect personnel, property, or finances by using a combination of loss control programs, participation in a risk-sharing pool, and self-insurance.

For property and liability insurance, the 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. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an inter-local governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, 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 Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

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

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retention 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 \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

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

The contract requires members to continue membership for a period of not less than one (1) 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 Enduris and are administered in-house.

SOOS CREEK WATER AND SEWER DISTRICT

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December 31, 2019

A Board of Directors consisting of seven (7) board members governs Enduris. Its 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.

The District did not have any claim settlements that exceeded limits in the last three years.

Unemployment Compensation Self-insurance

The District is self-insured for unemployment compensation exposure. Claims are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred.

NOTE 16 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75, *Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions* for the year 2019:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 2,074,518
OPEB assets	-
Deferred outflows of resources	24,006
Deferred inflows of resources	-
OPEB expense/expenditures	113,185

In addition to pension benefits as described in Note 13, the District, through its participation in the Health Care Authority (HCA) health insurance plans, also has postemployment liability arising out of the cost of providing health care insurance to retired District employees.

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between PEBB OPEB plan and its member employers (of which the District is), their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit ongoing basis. Nevertheless, the actuarial assumption used in valuations presented here assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported using the economic resources measurement focus and the accrual basis of accounting by the District. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan include the State of Washington (general government and higher education institutions, and component units), 76 of the state's K-12 schools and educational service districts (ESDs), and 249 political subdivisions and tribal governments. The plan is also available to retirees of the remaining 227 K-12 schools, charter schools, and ESDs.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Membership in the PEBB plan for the District consisted of the following:

Summary of Plan Participants As of December 31, 2019	
Active employees	45
Retirees receiving benefits	5
Retirees not receiving benefits	1
Total active employees and retirees	<u>51</u>

The PEBB OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. The District's PEBB members are all covered in PERS.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit rate subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2018, the average weighted implicit subsidy was valued at \$347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be \$368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar years 2017 and 2018 the explicit subsidy was \$150 per member per month, increasing to up to \$168 per member per month in calendar year 2019. It is projected to increase to \$183 per member per month in calendar year 2020.

Contribution Information. Administrative costs as well as implicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits. The benefits are funded on a pay-as-you-go basis. The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows:

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Required Premium*	
Medical	\$ 1,092
Dental	79
Life	4
Long-term disability	2
Total	<u>\$ 1,177</u>
Employer contribution	\$ 1,017
Employee contribution	160
Total	<u>\$ 1,177</u>

*Per 2019 PEBB Financial Projection Model 7.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on CY 2019 which includes projected claims cost at the time of this reporting.

Actuarial Assumptions. The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	6/30/2019
Actuarial measurement date	6/30/2019
Actuarial cost method	Entry Age
Amortization method	Recognized Immediately
Asset Valuation method	N/A - No assets

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

Discount Rate*	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected salary changes	3.50% plus service-based salary increases
Healthcare Trend Rates**	Initial rate is approximately 7%, trends down to about 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

**Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, after 2020 when the cap is \$183, it is assumed to grow at the health care trend rates. The state Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Total OPEB Liability. As of December 31, 2019, the District reported a total OPEB liability of \$2,074,518.

Changes in Total OPEB Liability. The following table presents the change in total OPEB liability as of December 31, 2019, reporting date:

Changes in Total OPEB Liability	
Total OPEB Liability- Beginning	\$2,011,049
Changes for the year:	
Service cost	77,153
Interest	79,861
Changes in benefit terms	-
Change in experience data and assumptions	(43,829)
Benefit payments	(49,716)
Other	-
Net Changes in Total OPEB Liability	63,469
Total OPEB Liability- Ending	\$2,074,518

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the District as an employer calculated using the discount rate of 3.87 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 2,476,174	\$ 2,074,518	\$ 1,755,440

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the District as an employer, calculated using the health care trend rates of 8.00 percent decreasing to 4.50 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (7.00 percent decreasing to 3.50 percent) or 1 percentage point higher (9.00 percent decreasing to 5.50 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Healthcare Trend Rate	\$ 1,724,978	\$ 2,074,518	\$ 2,522,911

NOTE 17 – OTHER DISCLOSURES

Contractual Receivable

On May 17, 2000, the District entered into an inter-local agreement with King County Water District 111 (WD 111) for the joint construction of the Meridiana project, a District sewer line and a WD 111 water line. As project administrator the District borrowed \$1,224,484 from the Department of Community Development of the State of Washington (See Note 11). Based upon proportional construction costs, WD 111's pro-rata share of the loan was 49.29% or \$603,548.

The following schedule depicts the remaining annual obligation WD 111 has to the District:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	31,542	315	31,857
2021	<u>31,542</u>	<u>158</u>	<u>31,699</u>
	<u>\$ 63,083</u>	<u>\$ 473</u>	<u>\$ 63,556</u>

NOTE 18 – SUBSEQUENT EVENT

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 District operations shifted into two shifts to minimize exposure to crew members and to maintain service. Most office staff alternated working from home weekly. Development was not considered essential so construction has been delayed on about 50 projects. Since the District has not been allowed to hold a public hearing, a comprehensive plan amendment that is needed to serve a new 3,000-unit development is on hold. Billing happens every two months, so the April 30th bills will let us know the impact this event will have on our revenues and cash flow.

SOOS CREEK WATER AND SEWER DISTRICT

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December 31, 2019

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

END OF NOTES

A copy of this report is available at the District, 14616 SE 192nd Street, Renton, WA 98058-9420.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2019

Schedule of Proportionate Share of the Net Pension Liability PERS 1 As of June 30 Last 10 Fiscal Years*					
	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset) PERS 1	0.025858%	0.026164%	0.026624%	0.026059%	0.024190%
Employer's proportionate share of the net pension liability	\$1,352,614	\$1,405,130	\$1,263,330	\$1,163,804	\$ 930,191
Employer's covered employee payroll	\$2,736,198	\$2,905,951	\$3,093,465	\$3,261,909	\$3,313,986
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	49.43%	48.35%	40.84%	35.68%	28.07%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2019

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 As of June 30 Last 10 Fiscal Years*					
	2015	2016	2017	2018	2019
Employer's proportion of the net pension liability (asset) PERS 2/3	0.028787%	0.028859%	0.029743%	0.028812%	0.029220%
Employer's proportionate share of the net pension liability	\$1,028,576	\$1,453,028	\$1,033,427	\$ 491,939	\$ 283,826
Employer's covered employee payroll	\$2,554,319	\$2,716,839	\$2,905,619	\$3,124,656	\$3,224,675
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	53.48%	35.57%	15.74%	8.80%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2019

Schedule of Employer Contributions PERS 1 As of December 31 Last 10 Fiscal Years*					
	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 18,267	\$ 20,943	\$ 22,082	\$ 17,213	\$ 11,309
Contributions in relation to the statutorily or contractually required contributions	\$ (18,267)	\$ (20,943)	\$ (22,082)	\$ (17,213)	\$ (11,309)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$2,811,781	\$2,997,403	\$3,093,465	\$3,261,909	\$3,313,986
Contributions as a percentage of covered employee payroll	0.65%	0.70%	0.71%	0.53%	0.34%

Schedule of Employer Contributions PERS 2/3 As of December 31 Last 10 Fiscal Years*					
	2015	2016	2017	2018	2019
Statutorily or contractually required contributions	\$ 258,997	\$ 308,771	\$ 342,164	\$ 392,220	\$ 408,328
Contributions in relation to the statutorily or contractually required contributions	\$ (258,997)	\$ (308,771)	\$ (342,164)	\$ (392,220)	\$ (408,328)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employer payroll	\$2,626,286	\$2,807,009	\$2,905,619	\$3,124,656	\$3,224,675
Contributions as a percentage of covered employee payroll	9.86%	11.00%	11.78%	12.55%	12.66%

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

December 31, 2019

Schedule of Changes in Total OPEB Liability and Related Ratios		
	2018	2019
Total OPEB Liability		
Service cost	\$ 90,891	\$ 77,153
Interest	73,541	79,861
Changes in benefit terms	-	-
Change in experience data and assumptions*	(113,029)	(43,829)
Benefit payments	(7,289)	(49,716)
Other	-	-
Net Changes in Total OPEB Liability	44,114	63,469
Total OPEB Liability- Beginning	\$1,966,935	\$2,011,049
Total OPEB Liability- Ending	\$2,011,049	\$2,074,518
Covered-employee payroll	\$3,345,558	\$3,406,573
Total OPEB liability as a percentage of covered-employee payroll	60.11%	60.90%

* Until a full 10-year trend is compiled, information is presented only for those years for which it is available.

Source: Washington State Office of the State Actuary

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov