



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Skyway Water and Sewer District

For the period January 1, 2018 through December 31, 2019

Published February 18, 2021

Report No. 1027826



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

February 18, 2021

Board of Commissioners
Skyway Water and Sewer District
Seattle, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on the Financial Statements.....	6
Financial Section.....	9
About the State Auditor's Office.....	50

INDEPENDENT AUDITOR'S REPORT

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

Skyway Water and Sewer District January 1, 2018 through December 31, 2019

Board of Commissioners
Skyway Water and Sewer District
Seattle, 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 Skyway Water and Sewer District, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 12, 2021.

As discussed in Note 14 to the 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 audits 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 opinions 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

February 12, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Skyway Water and Sewer District January 1, 2018 through December 31, 2019

Board of Commissioners
Skyway Water and Sewer District
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Skyway Water and Sewer District, as of and for the years ended December 31, 2019 and 2018, 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 opinions on these financial statements based on our audits. We conducted our audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Skyway Water and Sewer District, as of December 31, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 14 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 the matter.

Other Matters


Required Supplementary Information

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

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized initial "P".

Pat McCarthy
State Auditor
Olympia, WA

February 12, 2021

**Skyway Water and Sewer District
January 1, 2018 through December 31, 2019**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019 and 2018

Statement of Revenues, Expenses and Changes in Fund Net Position – 2019 and 2018

Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Schedule of Changes in Total Postemployment Benefits Other than Pension Liability and
Related Ratios and Notes – 2019

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Introduction

Skyway Water and Sewer District is a municipal corporation governed by an elected 3 member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries.

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2019 and 2018. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the total assets and deferred outflows of resources and total liabilities and deferred inflows of resources of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to a future period (deferred outflows), obligations to District creditors (liabilities), and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Condensed Comparative Statement of Net Position

The following condensed statements of net position present an overview of the District's financial position as of December 31, 2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Current Assets	\$ 15,889,663	\$ 13,569,687	\$ 11,613,214
Noncurrent Assets:			
Capital Assets - Net	33,278,038	32,998,031	31,390,308
Other	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 49,167,701</u>	<u>\$ 46,567,718</u>	<u>\$ 43,003,522</u>
<u>Deferred Outflows of Resources</u>	<u>\$ 76,700</u>	<u>\$ 73,629</u>	<u>\$ 84,119</u>
<u>Liabilities</u>			
Current Liabilities	\$ 1,190,309	\$ 1,081,038	\$ 926,417
Noncurrent Liabilities:			
Long-Term Debt	6,430,908	6,959,967	5,575,779
Other	<u>901,138</u>	<u>1,006,031</u>	<u>687,319</u>
Total Liabilities	<u>\$ 8,522,355</u>	<u>\$ 9,047,036</u>	<u>\$ 7,189,515</u>
<u>Deferred Inflows of Resources</u>	<u>\$ 184,721</u>	<u>\$ 169,536</u>	<u>\$ 106,662</u>
<u>Net Position</u>			
Net Investment in Capital Assets	\$ 27,033,180	\$ 26,219,353	\$ 25,981,407
Restricted for Debt Service	567,227	548,971	536,792
Unrestricted	<u>12,936,918</u>	<u>10,656,451</u>	<u>9,273,265</u>
Total Net Position	<u>\$ 40,537,325</u>	<u>\$ 37,424,775</u>	<u>\$ 35,791,464</u>

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets include cash and cash equivalents held in various funds. Cash balances in the various funds vary from year to year based on income from operations, capital contributions, expenses paid for operations and construction costs, transfers between funds, borrowings and debt service payments. Total cash and cash equivalents increased by \$2,269,807 in 2019 mainly due to a rate increase at January 1, 2019 in anticipation of future construction. Total cash and cash equivalents increased by \$1,771,883 in 2018 due to a rate increase at January 1, 2018 in anticipation of future construction projects.

Current assets also include customer and developer accounts receivable, accrued utility revenue, inventories and prepaid expenses. Customer accounts receivable decreased by \$55,730 in 2019 due to fluctuations in the timing of customer payments. Developer accounts receivable increased by \$71,531 in 2018 due to increased developer activity.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Noncurrent assets include net capital assets, which include land, construction work in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets increased by \$280,007 in 2019 which reflects the District's capital spending offset by depreciation of \$1,116,812. Net capital assets increased by \$1,607,723 in 2018 primarily due to an increase in capital spending by the District.

Deferred Outflows of Resources

Deferred outflows related to pensions did not change significantly in 2019 or 2018. In accordance with GASB 75, the District recognized deferred outflows related to other postemployment benefits (OPEB) beginning in 2018. Deferred outflows related to OPEB did not change significantly in 2019.

Liabilities

Current liabilities include accounts payable, deposits, accrued interest payable on debt, and the current portion of long-term debt. Current liabilities increased by \$109,271 in 2019 primarily due to an increase of \$42,315 in accounts payable and an increase of \$20,767 in retainage due contractors. Current liabilities increased by \$154,621 in 2018 primarily due to an increase of \$35,380 in accounts payable and an increase of \$87,376 in retainage due contractors. Maintenance and capital improvement accounts payable vary from year to year based on the timing of invoices received from vendors and on the capital projects underway at the time.

Noncurrent liabilities include compensated absences, the net pension liability, total OPEB liability, and the long-term portions of Public Works Trust Fund loans and revenue bonds outstanding. Noncurrent liabilities decreased by \$633,952 in 2019 primarily due to draws of \$234,699 on a Public Works Trust Fund loan, offset by required payments on bond and loan principal made during the year, as well as a decrease in the net pension liability of \$97,529. The District's net pension liability decreased because of a decrease in the net pension liability of the pension plan as a whole. Noncurrent liabilities increased by \$1,702,900 in 2018 primarily due to a draw of \$2,125,000 on a Public Works Trust Fund loan, offset by required payments on bond and loan principal made during the year. Net pension liability decreased by \$175,237. The adoption of GASB 75 increased noncurrent liabilities by recording the noncurrent portion of a total OPEB liability of \$480,215. See Note 5 for the detail of changes in long-term liabilities.

Deferred Inflows of Resources

Deferred inflows related to pensions increased by \$15,185 in 2019, primarily due to differences between projected and actual investment earnings on pension plan investments. Deferred inflows related to pensions increased by \$62,874 in 2018 primarily due to changes in assumptions used to calculate the liability.

Net Position

Net position consists of total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources. Net position increased by \$3,112,550 in 2019. Net position increased by \$2,111,105 in 2018, offset by a beginning of the year reduction of net position of \$477,794 due to the implementation of GASB 75. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Revenues</u>			
Water Service	\$ 2,523,387	\$ 2,443,757	\$ 2,309,852
Sewer Service	6,268,213	5,884,236	5,527,891
Other Operating Revenue	179,997	168,903	167,751
Nonoperating Revenues	<u>502,847</u>	<u>283,924</u>	<u>170,836</u>
Total Revenues	<u>\$ 9,474,444</u>	<u>\$ 8,780,820</u>	<u>\$ 8,176,330</u>
<u>Expenses</u>			
Operating Expenses	\$ 5,682,899	\$ 5,530,666	\$ 5,361,021
Depreciation and Amortization	1,116,812	1,099,287	1,075,203
Nonoperating Expenses	<u>154,437</u>	<u>163,173</u>	<u>176,228</u>
Total Expenses	<u>\$ 6,954,148</u>	<u>\$ 6,793,126</u>	<u>\$ 6,612,452</u>
Change in Net Position before Capital Contributions	\$ 2,520,296	\$ 1,987,694	\$ 1,563,878
Capital Contributions	<u>592,254</u>	<u>123,411</u>	<u>983,621</u>
Change in Net Position	\$ 3,112,550	\$ 2,111,105	\$ 2,547,499
<u>Total Net Position, January 1</u>	37,424,775	35,791,464	33,243,965
Change in Accounting Principle - GASB 75	<u>-</u>	<u>(477,794)</u>	<u>-</u>
<u>Total Net Position, December 31</u>	<u>\$ 40,537,325</u>	<u>\$ 37,424,775</u>	<u>\$ 35,791,464</u>

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

Revenues

Water service revenue increased by \$79,630 in 2019 due to a 4% rate increase effective January 1, 2019. Sewer service revenue increased by \$383,977 in 2019 due to a 13% local sewer rate increase effective January 1, 2019 in anticipation of future construction projects. Nonoperating revenues increased by \$218,923 in 2019 primarily due to an increase in interest on investments. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Water service revenue increased by \$133,905 in 2018 due to a 4% rate increase effective January 1, 2018. Sewer service revenue increased by \$356,345 due to a 13% local sewer rate increase effective January 1, 2018 in anticipation of future construction projects. Nonoperating revenues increased by \$113,088 in 2018 primarily due to an increase in interest on investments. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Expenses

Operating expenses

Operating expenses increased by \$152,233 in 2019. Administrative labor increased by \$11,660 primarily due to a cost of living increase of 3.6%. Vehicle/Fuel expense increased by \$28,393 due to a Vactor truck repair. Line/hydrant repair decreased by \$34,021, and pump station & tank maintenance decreased by \$4,924. These expenses vary from year to year. Miscellaneous maintenance and operations expense increased by \$57,186 due to an emergency road repair resulting from a water main break. State auditor expense increased by \$13,002 in 2019 due to the timing of the audit work for the 2017 audit. Bank & electronic payment fees increased by \$19,471 due to increased use of the website portal and the automated phone system for customer payments.

Operating expenses increased by \$169,645 in 2018. Administrative labor increased by \$14,005 primarily due to a cost of living increase of 3%. Commissioners' salaries increased by \$3,234 due to an increase in the commissioner per diem. Engineering expense increased by \$32,801 due to application for state franchise amendments. State auditor expense decreased by \$6,138 in 2018 because the 2017 audit was not complete until 2019. Line/hydrant repair increased by \$40,239 due to an increase in line breaks. This varies from year to year. Vehicles/fuel expense decreased by \$26,274 because 2017 had higher than normal repairs and maintenance.

Nonoperating expenses consist primarily of interest expense on long-term debt. Interest expense decreased by \$9,835 in 2019 and by \$12,179 in 2018 due to decreasing principal balances on long-term debt.

Capital Contributions

Capital contributions increased by \$468,843 in 2019 primarily due to an increase in property deeded to the District by developers. Capital contributions decreased by \$860,210 in 2018 primarily due to a decrease in property deeded to the District by developers, as well as a decrease in water and sewer facilities charges. Property deeded to the District by developers varies from year to year depending on the level of developer activity.

Change in Net Position

Net position increased by \$3,112,550 in 2019 and by \$1,633,311 in 2018, reflecting the fact that total revenues exceeded total expenses in both years.

Analysis of Overall Financial Condition

The District's overall financial condition remained strong in 2019 and 2018, with increases in net position, adequate liquid assets and positive operating cash flow.

In order to ensure that the District's financial condition remains strong, a rate increase was enacted effective January 1, 2019 and January 1, 2020.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The net capital assets of the District, after recording depreciation, increased by \$280,007 in 2019. Capital spending in 2019 mainly consisted of well improvements and a lift station consolidation.

The net capital assets of the District, after recording depreciation, increased by \$1,607,723 during 2018. Capital spending in 2018 mainly consisted of well improvements and automatic meter reading systems.

Over the next five years it is anticipated that capital spending will be in the range of \$47,053,000. The areas of major emphasis in the capital budget include water main/fire flow improvements, water main replacements, sewer main replacements and sewer pump station replacements.

Capital assets activity for the year ended December 31, 2019 was as follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Balance</u> <u>12/31/18</u>	<u>Change</u>
Land	\$ 270,515	\$ 270,515	\$ -
Construction in Progress	4,699,228	3,830,913	868,315
Utility Plant	50,103,532	49,622,869	480,663
Equipment	1,078,104	1,030,262	47,842
Intangibles	738,118	738,118	-
Accumulated Depreciation	<u>(23,611,459)</u>	<u>(22,494,646)</u>	<u>(1,116,813)</u>
Total Capital Assets, Net	<u>\$ 33,278,038</u>	<u>\$ 32,998,031</u>	<u>\$ 280,007</u>

Capital assets activity for the year ended December 31, 2018 was as follows:

	<u>Balance</u> <u>12/31/18</u>	<u>Balance</u> <u>12/31/17</u>	<u>Change</u>
Land	\$ 270,515	\$ 270,515	\$ -
Construction in Progress	3,830,913	1,807,862	2,023,051
Utility Plant	49,622,869	49,083,153	539,716
Equipment	1,030,262	903,124	127,138
Intangibles	738,118	738,118	-
Accumulated Depreciation	<u>(22,494,646)</u>	<u>(21,412,464)</u>	<u>(1,082,182)</u>
Total Capital Assets, Net	<u>\$ 32,998,031</u>	<u>\$ 31,390,308</u>	<u>\$ 1,607,723</u>

See Note 3 for more information regarding capital assets.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2019 and 2018

Long-Term Debt

At December 31, 2019, the District had total Public Works Trust Fund loans outstanding of \$3,955,434 and total revenue bonds outstanding, including bond premiums, of \$3,239,231. The total long-term debt of the District decreased by \$529,059 during 2019 due to draws of \$234,698 on a Public Works Trust Fund loan, offset by principal payments on long-term debt.

At December 31, 2018, the District had total Public Works Trust Fund loans outstanding of \$4,224,986 and total revenue bonds outstanding, including bond premiums, of \$3,475,792. The total long-term debt of the District increased by \$1,384,188 during 2018 due to a draw of \$2,125,000 on a Public Works Trust Fund loan, offset by principal payments on long-term debt.

See Note 5 for more information regarding long-term debt.

Additional Comments

The District was required to implement GASB 75 in 2018. For more information, please refer to the notes attached to the financial statements.

Skyway Water and Sewer District
Statement of Net Position
December 31, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<u>Current Assets</u>		
Cash & Cash Equivalents	\$ 12,343,391	\$ 10,118,483
Accrued Interest Receivable	26,544	16,753
Receivables: (Net)		
Customer Accounts Receivable	376,480	432,210
Accrued Utility Revenue	1,400,486	1,322,408
Developer Accounts Receivable	120,192	102,001
Miscellaneous Receivable	-	3,556
Restricted Assets:		
Cash & Cash Equivalents	1,531,955	1,487,056
Accrued Interest Receivable	1,153	1,063
Inventories	2,996	2,996
Prepayments	<u>86,466</u>	<u>83,161</u>
Total Current Assets	<u>\$ 15,889,663</u>	<u>\$ 13,569,687</u>
<u>Noncurrent Assets</u>		
Capital Assets Not Being Depreciated:		
Land	\$ 270,515	\$ 270,515
Construction in Progress	4,699,228	3,830,913
Capital Assets Being Depreciated:		
Plant	50,103,532	49,622,869
Machinery & Equipment	1,078,104	1,030,262
Intangibles	738,118	738,118
Less Accumulated Depreciation	<u>(23,611,459)</u>	<u>(22,494,646)</u>
Total Capital Assets	<u>\$ 33,278,038</u>	<u>\$ 32,998,031</u>
Total Noncurrent Assets	<u>\$ 33,278,038</u>	<u>\$ 32,998,031</u>
Total Assets	<u>\$ 49,167,701</u>	<u>\$ 46,567,718</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	\$ 73,690	\$ 70,888
Deferred Outflows Related to OPEB	<u>3,010</u>	<u>2,741</u>
Total Deferred Outflows	<u>\$ 76,700</u>	<u>\$ 73,629</u>

See accompanying notes.

Skyway Water and Sewer District
Statement of Net Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 193,584	\$ 151,269
Public Works Trust Fund Loans (Current Portion)	522,302	504,249
Interest Payable - PWTF Loans	9,770	7,508
Taxes Payable	5,002	4,176
Total OPEB Liability (Current Portion)	6,024	5,484
Security Deposits	53,152	53,152
Developer Deposits	34,803	14,214
Retainage Due Contractors	108,143	87,376
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Current Portion)	241,455	236,562
Bond Interest Payable	<u>16,074</u>	<u>17,048</u>
Total Current Liabilities	<u>\$ 1,190,309</u>	<u>\$ 1,081,038</u>
<u>Noncurrent Liabilities</u>		
Public Works Trust Fund Loans		
(Less Current Portion)	\$ 3,433,132	\$ 3,720,737
Compensated Absences	149,014	142,662
Payable from Restricted Assets:		
Revenue Bonds Outstanding, Net of Unamortized		
Bond Premium (Less Current Portion)	2,997,776	3,239,230
Net Pension Liability	285,625	383,154
Total OPEB Liability (Less Current Portion)	<u>466,499</u>	<u>480,215</u>
Total Noncurrent Liabilities	<u>\$ 7,332,046</u>	<u>\$ 7,965,998</u>
Total Liabilities	<u>\$ 8,522,355</u>	<u>\$ 9,047,036</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>\$ 184,721</u>	<u>\$ 169,536</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 27,033,180	\$ 26,219,353
Restricted for Debt Service	567,227	548,971
Unrestricted	<u>12,936,918</u>	<u>10,656,451</u>
Total Net Position	<u>\$ 40,537,325</u>	<u>\$ 37,424,775</u>

See accompanying notes.

Skyway Water and Sewer District
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Operating Revenues</u>		
Water Service	\$ 2,523,387	\$ 2,443,757
Sewer Service	6,268,213	5,884,236
Late Penalty Charges	135,069	131,387
Turn On/Turn Off Charges & Fees	19,440	18,180
Miscellaneous Account Fees	5,269	4,790
Availability Certificates, Permits & Misc. Fees	19,062	13,750
Interest on Liens	<u>1,157</u>	<u>796</u>
Total Operating Revenues	\$ 8,971,597	\$ 8,496,896
<u>Operating Expenses</u>		
Maintenance & Operations	\$ 4,323,812	\$ 4,205,985
Administrative & General	1,359,087	1,324,681
Depreciation & Amortization	<u>1,116,812</u>	<u>1,099,287</u>
Total Operating Expenses	\$ 6,799,711	\$ 6,629,953
Operating Income	\$ 2,171,886	\$ 1,866,943
<u>Nonoperating Revenues (Expenses)</u>		
Interest on Investments	\$ 394,123	\$ 182,057
Gain (Loss) on Disposal of Assets	-	7,142
Investment Service Fees	(1,419)	(864)
Interest Expense	(152,048)	(161,883)
Tower Rental	108,724	94,725
Bond Fund Service Fees	<u>(970)</u>	<u>(426)</u>
Total Nonoperating Revenues (Expenses)	\$ 348,410	\$ 120,751
Income Before Contributions	\$ 2,520,296	\$ 1,987,694
Capital Contributions	<u>592,254</u>	<u>123,411</u>
Change in Net Position	\$ 3,112,550	\$ 2,111,105
<u>Total Net Position, January 1</u>	37,424,775	35,791,464
Change in Accounting Principle - GASB 75	<u>-</u>	<u>(477,794)</u>
<u>Total Net Position, December 31</u>	<u>\$ 40,537,325</u>	<u>\$ 37,424,775</u>

See accompanying notes.

Skyway Water and Sewer District
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities</u>		
Receipts from Customers	\$ 9,061,531	\$ 8,521,355
Payments to Suppliers	(4,675,841)	(4,484,982)
Payments to Employees	<u>(1,112,406)</u>	<u>(1,096,031)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,273,284</u>	<u>\$ 2,940,342</u>
 <u>Cash Flows From Capital & Related Financing Activities</u>		
Acquisition & Construction of Capital Assets	\$ (866,975)	\$ (2,588,240)
Proceeds from Disposal of Capital Assets	-	7,142
Proceeds from Public Works Trust Fund Loan	234,698	2,125,000
Principal Payments on Public Works Trust Fund Loans	(504,250)	(352,463)
Principal Payments on Revenue Bonds	(235,000)	(385,000)
Capital Contributions	138,518	15,045
Interest Paid on Revenue Bonds & Public Works Trust Fund Loans	<u>(153,291)</u>	<u>(164,134)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>\$ (1,386,300)</u>	<u>\$ (1,342,650)</u>
 <u>Cash Flows From Investing Activities</u>		
Interest Received on Investments	\$ 384,242	\$ 175,055
Investment Service Fees	<u>(1,419)</u>	<u>(864)</u>
Net Cash Provided by Investing Activities	<u>\$ 382,823</u>	<u>\$ 174,191</u>
 Net Increase (Decrease) in Cash & Cash Equivalents	\$ 2,269,807	\$ 1,771,883
 <u>Cash & Cash Equivalents - January 1</u>	<u>\$ 11,605,539</u>	<u>\$ 9,833,656</u>
 <u>Cash & Cash Equivalents - December 31</u>	<u>\$ 13,875,346</u>	<u>\$ 11,605,539</u>
 <u>Noncash Investing, Capital and Financing Activities</u>		
Contributions of Capital Assets from Developers	<u>\$ 456,134</u>	<u>\$ 35,772</u>

See accompanying notes.

Skyway Water and Sewer District
Statement of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Reconciliation of Operating Income (Loss)</u> <u>to Net Cash Provided by Operating Activities</u>		
Operating Income	\$ 2,171,886	\$ 1,866,943
<u>Adjustments to Reconcile Operating Income</u> <u>to Net Cash Provided by Operating Activities:</u>		
Depreciation & Amortization	\$ 1,116,812	\$ 1,099,287
Rental Income	108,724	94,725
<u>Changes in Assets, Deferred Outflows of Resources,</u> <u>Liabilities, & Deferred Inflows of Resources:</u>		
(Increase) Decrease in Accounts Receivable	55,731	(10,389)
(Increase) Decrease in Accrued Revenue	(78,078)	(81,520)
(Increase) Decrease in Miscellaneous Receivables	3,556	(3,556)
(Increase) Decrease in Prepayments	(3,305)	(16,590)
(Increase) Decrease in Inventories	-	5,998
(Increase) Decrease in Deferred Outflows Related to Pensions	(2,802)	13,231
(Increase) Decrease in Deferred Outflows Related to OPEB	(269)	-
Increase (Decrease) in Accounts Payable	(10,629)	39,758
Increase (Decrease) in Taxes Payable	826	720
Increase (Decrease) in Security Deposits	-	25,200
Increase (Decrease) in Compensated Absences	6,352	13,734
Increase (Decrease) in Deferred Inflows Related to Pensions	15,185	62,874
Increase (Decrease) in Net Pension Liability	(97,529)	(175,237)
Increase (Decrease) in Total OPEB Liability	<u>(13,176)</u>	<u>5,164</u>
Total Adjustments	<u>\$ 1,101,398</u>	<u>\$ 1,073,399</u>
Net Cash Provided by Operating Activities	<u>\$ 3,273,284</u>	<u>\$ 2,940,342</u>

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Skyway Water and Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. 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 most significant accounting policies of the District:

a. Reporting Entity

Skyway Water and Sewer District is a municipal corporation governed by an elected three-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts for Class A and B Water Utilities and the Uniform System of Accounts for Sewer Utilities.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales, sewer collections, and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the developer's cost. Depreciation is computed on the straight-line method with the following useful lives:

Utility Plant	5 - 50 years
Machinery & Equipment	5 - 10 years
Intangibles	5 - 20 years

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and Public Works Trust Fund loan agreements separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

	<u>12/31/19</u>	<u>12/31/18</u>
Construction Funds	\$ 949,808	\$ 922,100
Bond Reserve Funds	582,147	564,956

Assets and liabilities shown as current in the accompanying statement of net position exclude current maturities on defeased revenue bonds and accrued interest thereon because debt service funds have been set aside for their payment.

f. Receivables

Receivables consist primarily of amounts due from water and sewer customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has the power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis, and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at market value. See Note 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay accumulated by an employee is payable upon termination of employment. Employees can carry over from one year to the next 50% of the vacation hours they earned in the prior year. Sick leave can accumulate up to 720 hours. Any excess over 720 hours will be cashed out and paid directly to the employee's medical savings account. Upon separation from service the entire accumulated and unused sick leave will be payable to the employee's medical savings account. When employees work overtime, they have the choice of being paid or receiving comp time. Comp time can accrue up to 80 hours, with a maximum of 40 hours carrying over from one year to the next. Upon separation from service the unused comp time is cashed out and paid to the employee.

j. Pensions

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

k. Subsequent Events

Management has evaluated subsequent events through May 29, 2020, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2019 and 2018 are listed below:

	<u>2019</u>	<u>2018</u>
Petty Cash	\$ 600	\$ 600
Bank Checking Account	5,484	3,549
Investment in King County Investment Pool	<u>13,869,262</u>	<u>11,601,390</u>
Total Cash & Investments	<u>\$ 13,875,346</u>	<u>\$ 11,605,539</u>

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

In accordance with State law, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 13,869,262	.92 Years

Impaired Investments. As of December 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 were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is \$3,682, and the District's fair value of these investments is \$2,478.

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 December 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.

Investment in King County Investment Pool by Fund

	<u>12/31/19</u>	<u>12/31/18</u>
Maintenance Fund	\$ 3,626,976	\$ 4,911,448
Capital Improvements Fund	8,663,269	5,202,886
Construction Funds	996,869	922,100
Revenue Bond Fund	<u>582,148</u>	<u>564,956</u>
Total Investment in King County Investment Pool	<u>\$ 13,869,262</u>	<u>\$ 11,601,390</u>

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments Measured at Fair Value

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

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2019, the District had the following investments measured at fair value:

- Investments in the King County Investment Pool are valued using quoted market prices (Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 270,515	\$ -	\$ -	\$ 270,515
Construction in Progress	<u>3,830,913</u>	<u>886,725</u>	<u>(18,410)</u>	<u>4,699,228</u>
<u>Total capital assets not being depreciated</u>	<u>4,101,428</u>	<u>886,725</u>	<u>(18,410)</u>	<u>4,969,743</u>
Capital assets being depreciated:				
Plant	49,622,869	480,663	-	50,103,532
Machinery & Equipment	1,030,262	47,842	-	1,078,104
Intangibles	<u>738,118</u>	<u>-</u>	<u>-</u>	<u>738,118</u>
<u>Total capital assets being depreciated</u>	<u>51,391,249</u>	<u>528,505</u>	<u>-</u>	<u>51,919,754</u>
Less Accumulated Depreciation	<u>22,494,646</u>	<u>1,116,813</u>	<u>-</u>	<u>23,611,459</u>
<u>Total capital assets being depreciated, net</u>	<u>28,896,603</u>	<u>(588,308)</u>	<u>-</u>	<u>28,308,295</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 32,998,031</u>	<u>\$ 298,417</u>	<u>\$ (18,410)</u>	<u>\$ 33,278,038</u>

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 3 - CAPITAL ASSETS (Continued)

Capital assets activity for the year ended December 31, 2018 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 270,515	\$ -	\$ -	\$ 270,515
Construction in Progress	<u>1,807,862</u>	<u>2,540,304</u>	<u>(517,253)</u>	<u>3,830,913</u>
<u>Total capital assets not being depreciated</u>	<u>2,078,377</u>	<u>2,540,304</u>	<u>(517,253)</u>	<u>4,101,428</u>
Capital assets being depreciated:				
Plant	49,083,153	539,716	-	49,622,869
Machinery & Equipment	903,124	144,242	(17,104)	1,030,262
Intangibles	<u>738,118</u>	<u>-</u>	<u>-</u>	<u>738,118</u>
<u>Total capital assets being depreciated</u>	<u>50,724,395</u>	<u>683,958</u>	<u>(17,104)</u>	<u>51,391,249</u>
Less Accumulated Depreciation	<u>21,412,464</u>	<u>1,099,286</u>	<u>(17,104)</u>	<u>22,494,646</u>
<u>Total capital assets being depreciated, net</u>	<u>29,311,931</u>	<u>(415,328)</u>	<u>-</u>	<u>28,896,603</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 31,390,308</u>	<u>\$ 2,124,976</u>	<u>\$ (517,253)</u>	<u>\$ 32,998,031</u>

The District has implemented GASB 89, Accounting for the Interest Cost Incurred before the End of a Construction Period, effective January 1, 2018. According to the provisions of GASB 89, interest cost during the construction period of utility plant is no longer capitalized. In 2019, total interest costs was \$152,048. In 2018, total interest cost was \$161,883

The District capitalizes employee wage and benefit costs in connection with construction of the utility plant. In 2019 the total wage and benefit costs were \$1,025,548 of which \$4,556 was capitalized. In 2018 the total wage and benefit costs were \$1,035,650 of which \$19,132 was capitalized.

The practice of the District is to use a capitalization threshold of \$1,000.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$11,528,000. Of the committed balance of \$6,828,772, the District will not be required to raise any future financing.

	<u>Project Estimate</u>	<u>Expended to 12/31/19</u>	<u>Remaining</u>	<u>Required Future Financing</u>
Geographic Information System	\$ 30,000	21,767	8,233	\$ -
Construction Guidelines	30,000	26,298	3,702	-
Automatic Meter Reading	950,000	270,192	679,808	-
Water System Model Update	5,000	3,263	1,737	-
Tanks #3 & #4 Coating Replacement	850,000	1,558	848,442	-
78 th Ave S Watermain Loop	75,000	48,599	26,401	-
Wells Treatment/Improvement Ph. 2	2,350,000	2,342,719	7,281	-
Rainier Ave S - S 113 th St Water				
Main Replacement	826,000	28,327	797,673	-
77 th & 79 th Water Main Replacement	625,000	597,793	27,207	-
District Wide Lift Stn Consol. Study	42,000	41,847	153	-
Skyway Park Area Lift Station	4,385,000	880,509	3,504,491	-
Sewer Telemetry	225,000	4,215	220,785	-
Skyway Park North Phase 1	400,000	298,497	101,503	-
Sunset Force Main Replacement	435,000	28,193	406,807	-
First Cities Pump Station Upgrade	<u>300,000</u>	<u>105,451</u>	<u>194,549</u>	<u>-</u>
	<u>\$11,528,000</u>	<u>\$4,699,228</u>	<u>\$ 6,828,772</u>	<u>\$ -</u>

NOTE 5 - LONG-TERM DEBT

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
2010 Series A Water & Sewer Revenue Bonds, 2.347% - 6.301%, maturing serially through 2030		
Original debt: \$5,150,000	\$ <u>3,230,000</u>	\$ <u>3,465,000</u>
	\$ 3,230,000	\$ 3,465,000
Unamortized Bond Premium	<u>9,231</u>	<u>10,792</u>
	<u>\$ 3,239,231</u>	<u>\$ 3,475,792</u>

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 5 - LONG-TERM DEBT (Continued)

a. Revenue Bonds (Continued)

The principal and interest on water and sewer revenue bonds are payable from and secured by a pledge of net operating revenues, collection of Utility Local Improvement District assessments, if any, including interest thereon, Federal Credit Payments on the 2010 Series A “Build America Bonds”, and certain money and investments held in the Bond Fund. The 2010 Series A bonds are “Build America Bonds”. The District will be allowed a credit payable by the United States Treasury in an amount equal to 35% of the interest payable on the bonds on each interest payment date. (See Note 11).

The annual requirements to amortize all revenue bond debts outstanding as of December 31, 2019, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 240,000	\$ 192,892	\$ 432,892
2021	250,000	180,961	430,961
2022	260,000	166,586	426,586
2023	270,000	151,636	421,636
2024	280,000	136,111	416,111
2025 - 2029	1,575,000	416,158	1,991,158
2030	<u>355,000</u>	<u>22,369</u>	<u>377,369</u>
	<u>\$ 3,230,000</u>	<u>\$ 1,266,713</u>	<u>\$ 4,496,713</u>

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

	<u>12/31/19</u>	<u>12/31/18</u>
2001 loan - payable at \$56,088 annually through the year 2021, plus interest at ½% per annum Original debt: \$1,051,644	\$ 112,175	\$ 168,263
2004 loan - payable at \$217,800 annually through the year 2024, plus interest at ½% per annum Original debt: \$4,114,000	1,089,000	1,306,800
2005 loan - payable at \$59,851 annually through the year 2025, plus interest at ½% per annum Original debt: \$1,130,526	359,108	418,960
2009 loan - payable at \$18,724 annually through the year 2029, plus interest at ½% per annum Original debt: \$416,854	187,239	205,963

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans (Continued)

2013 loan - payable at \$18,054 annually through the year 2032, plus interest at ½% per annum			
Original debt: \$234,698	234,698		-
2013 loan - payable at \$151,786 annually through the year 2032, plus interest at ½% per annum			
Original debt: \$2,125,000	<u>1,973,214</u>		<u>2,125,000</u>
	<u>\$ 3,955,434</u>		<u>\$ 4,224,986</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2019, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 522,302	\$ 19,659	\$ 541,961
2021	522,302	17,166	539,468
2022	466,215	14,554	480,769
2023	466,215	12,223	478,438
2024	466,215	9,892	476,107
2025 - 2029	1,002,668	27,179	1,029,847
2030 - 2032	<u>509,517</u>	<u>5,095</u>	<u>514,613</u>
	<u>\$ 3,955,434</u>	<u>\$ 105,768</u>	<u>\$ 4,061,203</u>

c. Changes in Long-Term Liabilities

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

	<u>Balance</u> <u>1/1/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/19</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds					
Payable	\$ 3,465,000	\$ -	\$ (235,000)	\$ 3,230,000	\$ 240,000
Unamortized Bond					
Premium	10,792	-	(1,561)	9,231	1,455
Public Works Trust					
Fund Loans	4,224,986	234,698	(504,250)	3,955,434	522,302
Compensated Absences	142,662	6,352	-	149,014	-
Net Pension Liability	383,154	-	(97,529)	285,625	-
Total OPEB Liability	<u>485,699</u>	<u>-</u>	<u>(13,176)</u>	<u>472,523</u>	<u>6,024</u>
Totals	<u>\$ 8,712,293</u>	<u>\$ 241,050</u>	<u>\$ (851,516)</u>	<u>\$ 8,101,827</u>	<u>\$ 769,781</u>

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 6 - LEASE COMMITMENTS

The District has entered into six long-term operating lease agreements, as the lessor. The leases are with telecommunications companies and allow them to mount antennas on the District's water towers. The District has also entered into a lease, as the lessor of a portion of its real property. As of December 31, 2019, two of the leases had expired, and the lessees were paying on a month-to-month basis. The other leases have termination dates ranging from May 30, 2021 to January 31, 2025 with options to renew for additional five-year terms. Future minimum rents receivable are as follows:

2020	\$ 104,477
2021	94,295
2022	74,045
2023	45,715
2024	32,188
	<u>\$ 350,720</u>

NOTE 7 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$285,625
Pension assets	\$ -
Deferred outflows of resources	\$73,690
Deferred inflows of resources	\$184,721
Pension expense/expenditures	\$17,193

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan.

NOTE 7 - PENSION PLAN (Continued)

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.

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.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - PENSION PLAN (Continued)

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.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - PENSION PLAN (Continued)

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
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 2/3	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 \$39,373 to PERS Plan 1 and \$61,508 to PERS 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*.

NOTE 7 - PENSION PLAN (Continued)

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 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 changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of 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. 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.

NOTE 7 - PENSION PLAN (Continued)

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%	

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 (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$269,770	\$215,417	\$168,258
PERS 2/3	\$538,471	\$70,208	\$(314,032)

NOTE 7 - PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the District reported a total pension liability of \$285,625 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$215,417
PERS 2/3	\$70,208

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	.005746%	.005602%	(.000144%)
PERS 2/3	.007411%	.007228%	(.000183%)

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

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	\$3,729
PERS 2/3	\$13,464

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - PENSION PLAN (Continued)

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	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(14,392)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 19,151	\$ -
TOTAL	\$ 19,151	\$(14,392)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,115	\$ (15,094)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(102,195)
Changes of assumptions	\$ 1,798	\$ (29,457)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 761	\$ (23,585)
Contributions subsequent to the measurement date	\$ 31,865	\$ -
TOTAL	\$ 54,539	\$(170,331)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,115	\$ (15,094)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$(116,587)
Changes of assumptions	\$ 1,798	\$(29,457)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 761	\$(23,585)
Contributions subsequent to the measurement date	\$ 51,016	\$ -
TOTAL	\$ 73,690	\$(184,723)

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 7 - PENSION PLAN (Continued)

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, 2019. 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	\$(3,177)
2021	\$(7,525)
2022	\$(2,686)
2023	\$ (1,004)
2024	\$ -
Thereafter	\$ -

Year ended December 31:	PERS 2 & 3
2020	\$(35,254)
2021	\$(57,122)
2022	\$(27,932)
2023	\$(17,121)
2024	\$(9,324)
Thereafter	\$(904)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31, 2019:

Aggregate OPEB Amounts - All Plans	
OPEB liabilities	\$472,523
OPEB assets	\$ -
Deferred outflows of resources	\$3,010
Deferred inflows of resources	\$ -
OPEB expense/expenditures	\$(6,550)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Description

The District is a participating employer in the State of Washington’s Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The plan provides other post-employment benefits (OPEB) through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

Employees covered by benefit terms: At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active employees	10
Total	12

Assumptions and Other Inputs

The District’s total OPEB liability was measured as of June 30, 2019 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Office of the State Actuary.

Methodology:	
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions:	
Discount Rate - Beginning of Measurement Yr	3.87%
Discount Rate - End of Measurement Yr	3.50%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates	Initial Rate is approx. 7%, trends down to approx. 5% in 2020.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

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%

The source of the discount rate is the Bond Buyer General Obligation 20-Bond Municipal Index. Healthcare trend rate assumptions vary slightly by medical plan. For additional details on the healthcare trend rates, see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate, as well as what the OPEB liability would be if it were calculated using a rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$387,762	\$472,523	\$583,166

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

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$567,871	\$472,523	\$397,328

Changes in the Total OPEB Liability

Total OPEB Liability - January 1, 2019	\$485,699
Service Cost	\$20,135
Interest	\$19,449
Changes in Experience Data & Assumptions	\$(46,134)
Benefit Payments	\$(6,626)
Total OPEB Liability - December 31, 2019	\$472,523

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The District recognized OPEB expense for the year ended December 31, 2019 as follows:

Service Cost	\$20,135
Interest Cost	\$19,449
Changes in Experience Data & Assumptions	\$(46,134)
Changes in Benefit Terms	\$ -
Total OPEB Expense	\$(6,550)

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in experience data & assumptions	\$ -	\$ -
Payments subsequent to the measurement date	\$3,010	\$ -
TOTAL	\$3,010	\$ -

Deferred outflows of resources of \$3,010 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2020.

NOTE 9 - RISK MANAGEMENT

The District is member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 68 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 9 - RISK MANAGEMENT (Continued)

Officials Liability; Employment Practices Liability; Cyber Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an “occurrence” basis.

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible, per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

NOTE 9 - RISK MANAGEMENT (Continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2020, written notice must be in the possession of the Pool by April 30, 2020). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

For years ending December 31, 2017, 2018, and 2019 the District had no claims in excess of their insurance coverage.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Reservoir Lease

The District has entered into an agreement with Water District No. 125 of King County for the joint lease, construction and operation of a 1.3 million gallon reservoir. The District is leasing a 25% interest in the facilities to Water District No. 125 for 50 years beginning November 1, 1996. Water District No. 125 will pay 25% of direct costs of maintaining the facilities and 25% of overhead incurred by Skyway Water and Sewer District in administering them.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Joint Municipal Utility Services Agreement

On April 1, 1999, the District entered into an Interlocal Contract with other water providers in the region to create the Cascade Water Alliance (CWA). The purpose of CWA is to provide a safe, reliable and high-quality water supply to meet the current and projected demands of the CWA Members in a coordinated, cost-effective, and environmentally sensitive manner. As of December 31, 2019, CWA consisted of seven Members. CWA is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction.

The District paid dues of \$75,132 to CWA in 2019 and paid dues of \$76,496 to CWA in 2018. The District also paid CWA \$25,664 in Regional Capital Facilities Charges in 2019 for new residential and commercial hookups to the water distribution system. The District paid CWA \$30,025 in Regional Capital Facilities Charges in 2018.

A Member may withdraw from CWA with a resolution of its legislative authority expressing such intent. The CWA board will then determine the withdrawing Member's allocable share of the then-existing obligations of CWA, as well as the withdrawing Member's obligations to CWA. The Member's withdrawal shall be effective on payment of such allocable share and obligations. Members do not hold legal ownership rights in any assets owned by CWA.

Audited financial statements can be obtained from the Cascade Water Alliance, 520 112th Avenue NE, Suite 400, Bellevue, WA 98004.

NOTE 11 - BUILD AMERICA BONDS SEQUESTRATION

On March 1, 2013 the sequestration provision of the Budget Control Act of 2011 went into effect. As a result, the federal subsidy payments of 35% of the interest paid on the 2010 Series A Build America Bonds were reduced. There was a 6.2% reduction to the 35% interest rebate rate on the June 1, 2019 interest payment. This reduction was in the amount of \$2,220. There was a 5.9% reduction to the 35% interest rebate rate on the December 1, 2019 interest payment. This reduction was in the amount of \$2,112. There was a 6.6% reduction to the 35% interest rebate rate on the June 1, 2018 interest payment. This reduction was in the amount of \$2,495. There was a 6.2% reduction to the 35% interest rebate rate on the December 1, 2018 interest payment. This reduction was in the amount of \$2,344. Similar reductions will occur in future years unless Congress takes action.

NOTE 12 - USE OF ESTIMATES

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

NOTE 13 - ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - effective for fiscal years ending June 30, 2018 and after. This is the accounting and reporting requirements for employers who provide OPEB benefits. It replaces GASB 45. The District's 2018 Statement of Net Position reflects a change in accounting principle of \$477,794 which resulted due to implementation of GASB 75. See Note 8.

GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period, has been implemented by the District effective January 1, 2018. See Note 3.

NOTE 14 - 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 has implemented temporary billing and collection policies effective March 24, 2020. During the time period the state declaration of emergency is in effect, the District will suspend utility shut-offs, late charges, and lien interest charges. If the District becomes aware of a residence which is legally occupied and service is currently locked off, service will be restored in accordance with current restoration protocols. Customer accounts will continue accruing a balance outside of these fees being suspended. Furthermore, customers who apply for and are determined eligible for the discount rate program shall have the discount rate applied retroactive to service charges beginning March 1, 2020. 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.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE VI

Skyway Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2019
Last 10 Fiscal Years

	2019	2018	2017	2016	2015	20XX	20XX	20XX	20XX	20XX
PERS 1										
Employer's proportion of the net pension liability (asset)	% 0.005602%	0.005746%	0.006060%	0.006291%	0.005948%					
Employer's proportionate share of the net pension liability	\$ 215,417	256,618	287,552	337,856	311,136					
TOTAL	<u>\$ 215,417</u>	<u>256,618</u>	<u>287,552</u>	<u>337,856</u>	<u>311,136</u>					
Covered payroll	\$ 785,516	792,025	767,341	748,270	681,838					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 0.00%	0.00%	0.00%	0.00%	0.00%					
Plan fiduciary net position as a percentage of the total pension liability	% 67.12%	63.22%	61.24%	57.03%	59.10%					
PERS 2/3										
Employer's proportion of the net pension liability (asset)	% 0.007228%	0.007411%	0.007795%	0.008071%	0.007685%					
Employer's proportionate share of the net pension liability	\$ 70,208	126,536	270,839	406,368	274,589					
TOTAL	<u>\$ 70,208</u>	<u>126,536</u>	<u>270,839</u>	<u>406,368</u>	<u>274,589</u>					
Covered payroll	\$ 785,516	792,025	767,341	748,270	681,838					
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 8.94%	15.98%	35.30%	54.31%	40.27%					
Plan fiduciary net position as a percentage of the total pension liability	% 97.77%	95.77%	90.97%	85.82%	89.20%					

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE VII

Skyway Water and Sewer District
Schedule of Employer Contributions
Year Ended December 31, 2019
Last 10 Fiscal Years*

	2019	2018	2017	2016	2015	20XX	20XX	20XX	20XX	20XX
PERS 1										
Statutorily or contractually required contributions	\$ 39,373	40,098	37,543	34,653	32,534					
Contributions in relation to the statutorily or contractually required contributions	\$ (39,373)	(40,098)	(37,543)	(34,653)	(32,534)					
Contribution deficiency (excess)	\$ 0	0	0	0	0					
Covered payroll	\$ 796,526	792,025	767,341	726,747	740,312					
Contributions as a percentage of covered payroll	% 0.00%	0.00%	0.00%	0.00%	0.00%					
PERS 2/3										
Statutorily or contractually required contributions	\$ 61,508	59,401	52,363	45,259	41,791					
Contributions in relation to the statutorily or contractually required contributions	\$ (61,508)	(59,401)	(52,363)	(45,259)	(41,791)					
Contribution deficiency (excess)	\$ 0	0	0	0	0					
Covered payroll	\$ 796,526	792,025	767,341	726,747	740,312					
Contributions as a percentage of covered payroll	% 7.72%	7.50%	6.82%	6.23%	5.65%					

Notes to Supplementary Schedules VI and VII

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2: Changes of Benefit Terms

There were no changes of benefit terms for the pension plans.

Note 3: Changes of Assumptions

Refer to Notes to Financial Statements, Note 7, Actuarial Assumptions.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov