



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements Audit Report**

# **Beacon Hill Water and Sewer District**

**For the period January 1, 2019 through December 31, 2020**

*Published October 14, 2021*

Report No. 1029208



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

October 14, 2021

Board of Commissioners  
Beacon Hill Water and Sewer District  
Kelso, Washington

**Report on Financial Statements**

Please find attached our report on the Beacon Hill 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***

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## INDEPENDENT AUDITOR'S REPORT

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

### **Beacon Hill Water and Sewer District January 1, 2019 through December 31, 2020**

Board of Commissioners  
Beacon Hill Water and Sewer District  
Kelso, 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 Beacon Hill Water and Sewer District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 7, 2021.

As discussed in Note 11 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

## 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.

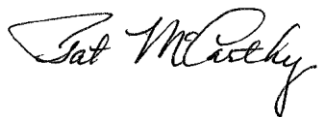
## COMPLIANCE AND OTHER MATTERS

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.

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

Pat McCarthy, State Auditor

Olympia, WA

October 7, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Beacon Hill Water and Sewer District January 1, 2019 through December 31, 2020**

Board of Commissioners  
Beacon Hill Water and Sewer District  
Kelso, Washington

## **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Beacon Hill Water and Sewer District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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

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

### **Auditor's Responsibility**

Our responsibility is to express 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 Beacon Hill Water and Sewer District, as of December 31, 2020 and 2019, 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.

## **Matters of Emphasis**

As discussed in Note 11 to the financial statements, the full extent of the COVID-19 pandemic's direct and indirect financial impact on the City is unknown. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

October 7, 2021



## **FINANCIAL SECTION**

### **Beacon Hill Water and Sewer District January 1, 2019 through December 31, 2020**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020 and 2019

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020 and 2019

Statement of Revenues, Expenses and Changes in Net Position – 2020 and 2019

Statement of Cash Flows – 2020 and 2019

Notes to Financial Statements – 2020 and 2019

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2020  
and 2019

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2020 and 2019

Notes to Required Supplemental Information – Pension – 2020 and 2019

**BEACON HILL WATER AND SEWER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Fiscal Year Ending December 31, 2020, and 2019

## **INTRODUCTION**

Beacon Hill Water and Sewer District (District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended December 31, 2020, and December 31, 2019. The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

## **BACKGROUND**

Beacon Hill Water and Sewer District is a public entity established in 1959 to provide wastewater collection and transportation for the Beacon Hill and Columbia Heights areas located just north of the city limits of Longview and Kelso. The Lexington area customers were added to the system in the early 1970's. The Cowlitz PUD's water systems were managed by the District starting in 2007 and fully transferred to the District in 2010. The District's total service area is approximately bordered by Ostrander Road to the east, the Longview City limits to the south, Lone Oak Road to the west and King Road to the north. The District Office is located on SR-411 at 1121 West Side Highway, Kelso, WA 98626.

A three-person Board of Commissioners is elected by a vote of the customers to serve six-year terms to govern the District. The Board is the District's policy making and decision-making body. State regulatory oversight of the wastewater collection system is by the Washington State Department of Ecology. Regulatory oversight of the drinking water system is by the Washington State Department of Health.

The District is not legally required to adopt an annual budget; however, the District does adopt a similar management tool as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts the biannual maintenance and operation management tool to use as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The District's financial statements present a special purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide domestic water and sanitary sewer service to specific areas in Cowlitz County, Washington. The District is not a segment of any other local government, nor is it a component thereof.

The financial statements include a statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements.

The ***Statement of Net Position*** provides a record, or snapshot, of the assets, deferred outflows, liabilities, and deferred inflows at the close of the year. It presents the financial position of the District on a full accrual historical cost basis. The net difference between the District's assets and liabilities is shown as the District's net position. Net position is further broken down into the separate categories to show the net position is invested in net capital assets, restricted net position, if applicable and unrestricted net position of the District.

The ***Statement of Revenues, Expenses, and Changes in Fund Net Position*** present the results of the

business activities over the course of the fiscal year and the resulting change in net position of the District. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future years. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate profitability and credit worthiness.

The *Statement of Cash Flows* is the third basic financial statement and is related to the other financial statements by the way it links changes in assets, deferred outflows, liabilities, and deferred inflows to the effect on cash equivalents over the course of the fiscal year. The statement reports cash receipts, cash payments and net changes resulting from operating, financing, and investing activities. It presents information regarding where cash came from and what it was used for.

The *Notes to Financial Statements* provide useful information regarding the District's significant accounting policies; it explains significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

## FINANCIAL POSITION

The District's overall financial position continues to be strong with enough liquidity and debt capacity to finance future capital improvements.

Total net position for the District totaled \$20,192,229 at December 31, 2020, which represents a \$898,228 increase over the December 31, 2019, balance of \$19,294,001.

The December 31, 2019, balance of \$19,294,001 increased \$1,285,174 over the December 31, 2018, balance of \$18,008,827.

### STATEMENT OF NET POSITION

	2020	2019	2018
Assets:			
Current and other assets	\$ 12,366,348	\$ 11,698,223	\$ 10,691,096
Capital assets, net	<u>13,662,931</u>	<u>13,982,858</u>	<u>13,847,354</u>
Total Assets	26,029,279	25,681,081	24,538,450
 Deferred Outflows of Resources	97,972	78,981	68,733
Liabilities:			
Other liabilities	594,561	553,847	757,699
Long-term liabilities	<u>5,255,816</u>	<u>5,750,117</u>	<u>5,688,317</u>
Total Liabilities	5,850,377	6,303,964	6,446,016
 Deferred Inflows of Resources	84,645	162,097	152,340
Net Position:			
Net invested in capital assets	10,369,039	10,347,003	10,463,693
Restricted	326,372	468,293	266,767
Unrestricted	<u>9,496,818</u>	<u>8,478,705</u>	<u>7,278,367</u>
Total Net Position	<u>\$ 20,192,229</u>	<u>\$ 19,294,001</u>	<u>\$ 18,008,827</u>

**Analysis of changes in Total Net Position from 2019 to 2020:**

For the twelve months ending December 31, 2020, the total net position of the District increased by \$898,228 or 4.66% (\$19,294,001 to \$20,192,229).

The largest portion of the current and other assets is made-up of Cash and Cash Equivalents (\$9,215,022 or 74.42%). The increase of 21.95% or \$1,658,883 over the prior year balance of \$7,556,139 is the result of called bond investments and normal operations.

The Investment in Associated Organization represents .75% or \$103,293 of noncurrent assets. This is the Mint Farm Regional Water Treatment Plant of which the District had 14.97% ownership. In 2020 the District increased its capital participation in this liability, resulting in an increase of 176.87% or \$237,665.

Capital Assets decreased 2.29% or \$319,927 in 2020 over the prior year balance of \$13,982,858. The decrease resulted from asset disposals and depreciation exceeding asset additions. Most of the disposals were from a reservoir and pump station replacement and the additions were from facility improvements, sewer line replacements and power operated equipment.

The restricted net position of the District consists of debt service on the revenue bonds in the amount of \$326,372, which decreased \$141,921 or 30.31% (\$468,293 to \$326,372). The decrease was due to a drop in the debt reserve account.

The unrestricted net position of District increased 12.01% or \$1,018,113 mainly due to an increase in cash and cash equivalents from a liquidated investment. The District continues to keep expenditures lower than operating revenues.

**Analysis of changes in Total Net Position from 2018 to 2019:**

For the twelve months ending December 31, 2019, the total net position of the District increased by \$1,285,174 or 7.14% (\$18,008,827 to \$19,294,001).

The largest portion of the current and other assets is made-up of Cash and Cash Equivalents (\$7,556,139 or 70.66%). The increase of 44.20% or \$2,316,196 over the prior year balance of \$5,239,943 is the result of normal operations and proceeds from liquidated investments.

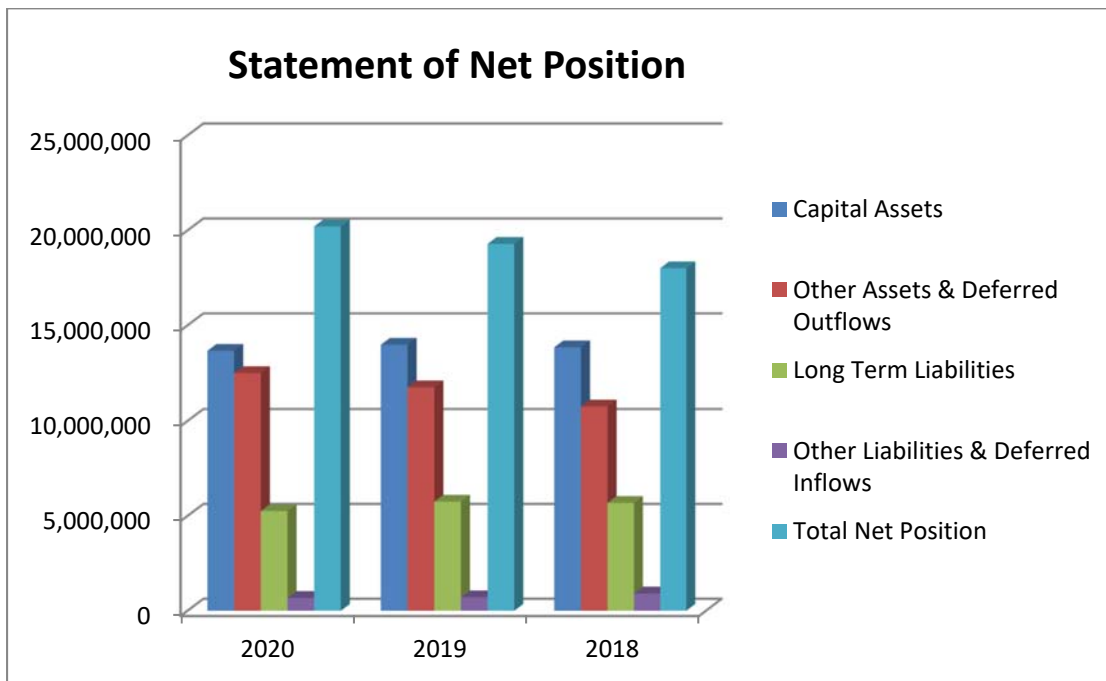
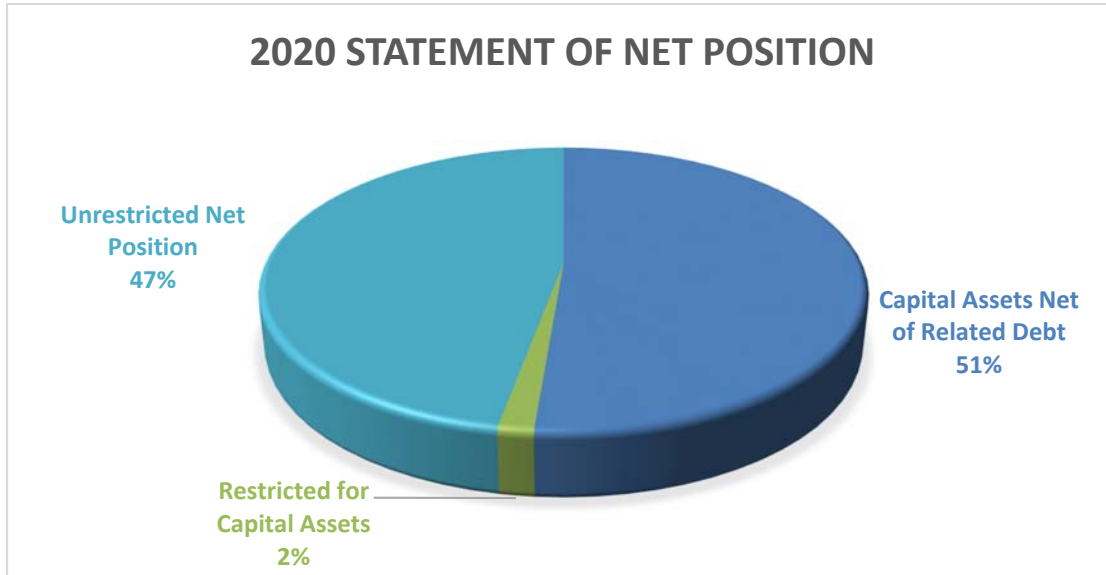
Non-current liabilities increased by \$61,800 or 1.09%. The increase was mainly due to an increase in loans payable.

Capital Assets increased .98% or \$135,504 in 2019 over the prior year balance of \$13,847,354. The increase results from asset additions exceeding depreciation. Most of the additions were from water system improvements and sewer line replacements.

The restricted net position of the District consists of debt service on the revenue bonds in the amount of \$468,293.

The unrestricted net position of the District increased 16.49% or \$1,200,338 mainly due to an increase in cash and cash equivalents. The District continues to keep expenditures lower than operating revenues.

The following charts indicate the components of the District's financial position:



## RESULTS OF OPERATIONS

Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position as of December 31:

Revenues	2020	2019	2018
Operating Revenues	\$ 4,662,676	\$ 4,543,472	\$ 4,521,747
Nonoperating Revenues	84,404	215,798	114,699
Total Revenues	4,747,080	4,759,270	4,636,446
Expenses			
Operating Expenses	3,703,873	3,695,013	3,507,374
Nonoperating Expenses	260,625	391,164	295,249
Total Expenses	3,964,498	4,086,177	3,802,623
Excess (Deficiency) Before Contribut	782,582	673,093	833,823
Capital Contributions	115,646	612,081	98,469
Change in Net Position	898,228	1,285,174	932,292
Net Position - Beginning	19,294,001	18,008,827	17,076,535
Net Position - Ending	\$ 20,192,229	\$ 19,294,001	\$ 18,008,827

### Analysis of changes in Revenues, Expenses and Changes in Net Position from 2019 to 2020:

- Excess before capital contributions increased by \$109,489 (\$673,093 to \$782,582).
- Operating revenues increased by \$119,204, made up primarily of an increase in service fees due to a rate increase.
- Other non-operating revenues decreased by \$131,394 due to a decrease in investment revenue.
- Operating expenses has remained stable year over year.
- Non-operating expenses decreased by \$130,539 overall due to gain/loss on sale of capital assets , interest paid on debt obligation, and change in Associated Organization.
- Capital contributions decreased by \$162,765 (excluding debt forgiveness of \$333,670) from 2019 to 2020 (\$278,411 to \$115,646) and were made up entirely of connection fees.

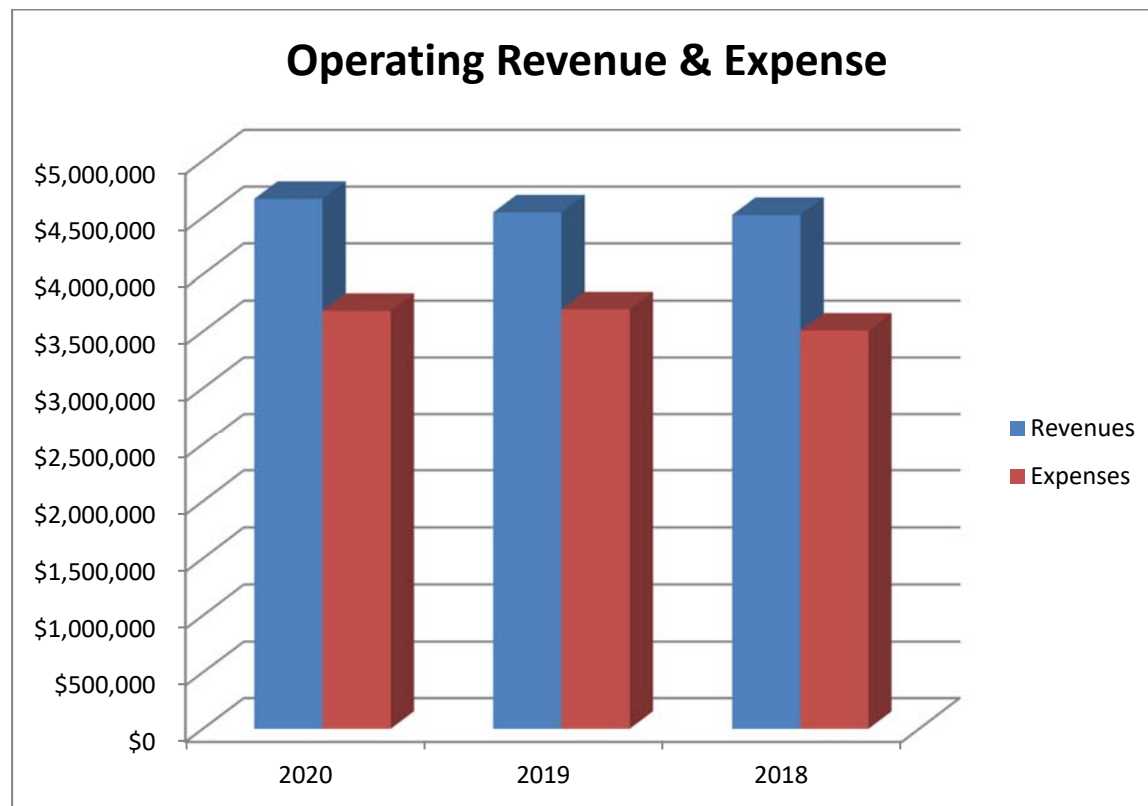
### Analysis of changes in Revenues, Expenses and Changes in Net Position from 2018 to 2019:

- Excess before capital contributions decreased by \$160,730 (\$833,823 to \$673,093).
- Operating revenues increased by \$21,725, made up primarily of an increase in service fees due to a rate increase.
- Other non-operating revenues increased by \$101,099 due to an increase in investment revenue.
- Operating expenses increased by \$187,639 overall due to increases in salary and benefits.
- Non-operating expenses increased by \$95,915 which is made up of interest paid on debt obligations, bond issuance costs and change in Associated Organization.
- Capital contributions increased by \$179,942 (excluding debt forgiveness of \$333,700) from 2018 to 2019 (\$98,469 to \$278,411) and were made up entirely of connection fees.

District water and sewer operations are funded from customer revenues. The District's year-end customer base for the years 2020, 2019, and 2018 were as follows:

Year	Residential Units	Commercial Units (residential equivalents)	Metered Accounts (residential equivalent)	Total	Increase
2020	3933	678	4	4615	0.4%
2019	3917	678	4	4599	0.2%
2018	3907	677	4	4588	0.4%

The following chart indicates operating revenues and expenses:



The District's revenues are categorized in three groups: water service, wastewater service and ancillary charges. Ancillary charges include meter installs, inspection permit fees, account set up and penalty fees, and other charges for miscellaneous billed services.

The District also collects water and sewer connection charges and receives additions to its collections and distribution systems from developers. These facilities typically consist of the pipes and structures needed to serve residential communities and are recorded as capital assets and non-cash capacity revenue. These fees are classified as non-operating revenues. While not formally restricted, the District typically uses connection charges for capital investment and debt service. Development slowed down in 2020 with capital contribution revenue from connection fees of \$115,646 in 2020, \$278,411 (excluding debt forgiveness for \$333,700) in 2019 and \$98,469 in 2018.

Non-operating expenses exceeded non-operating revenues by \$176,221 in 2020, \$175,366 in 2019 and \$180,550 in 2018. The decrease in non-operating revenues of \$131,394 in 2020 is due to a decrease in interest and investment revenue and the increase in 2019 of \$101,099 in 2018 and \$32,605 in 2018, is mainly due to an increase in interest and investment revenue. Interest and other debt service expenses were \$138,953 in 2020, \$142,630 in 2019 and \$120,113 in 2018. The decreases are due to accelerated principal payments on a portion of the District's debt and the increase due to the District's increased debt.

Operating expenses increased from \$3,507,374 in 2018 to 3,695,013 in 2019 and then decreased to \$3,703,873 in 2020. One component of operating expenses includes sewer treatment costs. As the flow of treatment members changes each year, the District's percentage of the shared operating expense will likewise adjust. Treatment cost were \$775,871 in 2018 and decreased by \$128 to \$775,743 in 2019 and had a further decrease of \$157,673 to \$618,070 in 2020 as noted, due to the change in the District's share of the costs decreasing over these periods.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

*Capital Assets:* The District's capital assets for system improvements (net accumulated depreciation and amortization) as of December 31, 2020, totaled \$13,662,931, December 31, 2019, totaled \$13,982,858 and December 31, 2018, totaled \$13,847,354. Overall capital assets changes are due to increases and decreases in capital improvement projects in progress.

Capital asset additions totaled \$274,936 in 2020, which comprised of the following:

Collection Sewer-Force \$163,845, Structures and Improvements \$34,205 and Power Operated Equipment \$76,886.

Capital asset additions totaled \$1,747,430 in 2019, which comprised of the following:

Computer Hardware \$26,577, Collection Sewer-Force \$397,523, Miscellaneous Equipment \$12,613, Structures & Improvements \$1,243,653, and Transportation & Power Operated Equipment \$67,064

Capital asset additions totaled \$3,647,378 in 2018, which comprised of the following:

Collection Sewer-Force \$625,359, Distribution Reservoirs and Standpipes \$136,610, Structures and Improvements \$2,183,428 and Transmission and Distribution Mains \$701,981.

Debt acquired in 2020, 2019 and 2018 consists of:

- 24-year Drinking Water State Revolving Fund Loan for \$850,000, authorized in 2015, amended to \$1,112,333 in 2017, which \$126,987 was drawn in 2017, \$138,476 in 2018 and \$846,870 in 2019 for a pump station reconstruction. This loan was closed in 2019 with a 30% or \$333,700 loan forgiveness.
- 20-year Revenue Bonds were authorized and issued in the amount of \$3,450,000 in 2018. The proceeds reimbursed expenditures from capital projects in progress and the remaining balance will be used to finance future capital projects.
- 24-year Drinking Water State Revolving Fund Loan for \$2,060,400, authorized in 2020 with no funds drawn, for a reservoir and pump station improvements.



## Direct Borrowing Loans and Bond Obligations:

Type of Debt	Debt Outstanding 12/31/2020	Debt Outstanding 12/31/2019	Debt Outstanding 12/31/2018
Direct Borrowing Loans Payable			
PWTF Loans	\$481,317	\$612,508	\$696,563
DWSRF Loans	1,301,000	1,375,013	932,005
Total Direct Borrowing Loans Payable	1,782,317	1,987,521	1,628,568
Bonds Payable			
Revenue Bonds	3,230,000	3,355,000	3,450,000
Unamortized Revenue Bond Premium	210,680	222,439	234,198
Total Bonds Payable	3,440,680	3,577,439	3,684,198
Total Direct Borrowing Loans and Bonds Payable	5,222,997	5,564,960	5,312,766

Additional information on the District's Capital Assets and Long-term Debt can be found in the Notes to the Financial Statements, Notes 4, 6 and 7, respectively.

## ADDITIONAL COMMENTS

The District is dependent on the Three Rivers Regional Wastewater Authority (TRRWA) for the treatment of sewage collected. On July 1, 2016, TRRWA adopted a new formation agreement as a Joint Municipal Utility Services Authority (JMUSA). It continues to be governed by a board consisting of the following member entities: Beacon Hill Water and Sewer District, City of Longview, City of Kelso, and Cowlitz County. The District's treatment costs are directly related to the treatment plant's budget divided by a percentage of total flow established by entity usage.

### *Requests for Information*

This financial report is designed and intended to provide a general overview of the District's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Beacon Hill Water and Sewer District at 1121 West Side Highway, Kelso, WA 98626 or via our website at [bhwsd.org](http://bhwsd.org).

**BEACON HILL WATER AND SEWER DISTRICT**

Statement of Net Position  
December 31, 2020 and 2019

	2020	2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$9,215,022	\$7,556,139
Restricted Cash and Cash Equivalents	2,255,477	2,397,398
Accounts Receivable	640,141	598,217
Inventory	44,063	41,714
Prepayments	108,352	100,466
<b>Total Current Assets</b>	<b>12,263,055</b>	<b>10,693,934</b>
<b>Noncurrent Assets</b>		
Investments	-	1,004,289
Investment in Associated Organization	103,293	-
Capital Assets Not Being Depreciated	853,463	690,525
Capital Asset Being Depreciated	12,809,468	13,292,333
<b>Total Noncurrent Assets</b>	<b>13,766,224</b>	<b>14,987,147</b>
<b>TOTAL ASSETS</b>	<b>26,029,279</b>	<b>25,681,081</b>
<b>DEFERRED OUTFLOWS of RESOURCES</b>		
Amount Related to Pension	97,972	78,981
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES</b>	<b>97,972</b>	<b>78,981</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	96,864	72,959
Accrued Payroll Liabilities	34,230	23,843
Employee Compensated Absences	95,639	94,707
Interest Payable	16,516	18,137
Prepaid Lease Revenue	2,382	2,238
Bonds and Loans Payable	348,930	341,963
<b>Total Current Liabilities</b>	<b>594,561</b>	<b>553,847</b>
<b>Noncurrent Liabilities</b>		
Bonds and Loans Payable	4,874,067	5,222,997
Employee Compensated Absences	113,120	112,809
Liability in Associated Organization	-	134,372
Pension Obligations	268,629	279,939
<b>Total Noncurrent Liabilities</b>	<b>5,255,816</b>	<b>5,750,117</b>
<b>TOTAL LIABILITIES</b>	<b>5,850,377</b>	<b>6,303,964</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Amount Related to Pension	84,645	162,097
<b>Total Deferred Inflows of Resources</b>	<b>84,645</b>	<b>162,097</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	10,369,039	10,347,003
Restricted for Capital Assets and Debt Service	326,372	468,293
Unrestricted	9,496,818	8,478,705
<b>TOTAL NET POSITION</b>	<b>20,192,229</b>	<b>19,294,001</b>

**BEACON HILL WATER AND SEWER DISTRICT**  
**Statement of Revenues , Expenses and Changes in Fund Net Position**  
**December 31, 2020 and 2019**

	2020	2019
<b>OPERATING REVENUES</b>		
Charge for Services	\$ 4,652,979	\$ 4,498,358
Miscellaneous	9,697	45,114
<b>Total Operating Revenues</b>	<b>4,662,676</b>	<b>4,543,472</b>
<b>OPERATING EXPENSES</b>		
Treatment Expenses	618,070	775,743
Operations	1,894,238	1,803,433
Repairs and Maintenance	190,721	145,783
Insurance	66,520	64,632
Taxes	176,524	169,446
Depreciation	757,800	735,976
<b>Total Operating Expenses</b>	<b>3,703,873</b>	<b>3,695,013</b>
<b>OPERATING INCOME (LOSS)</b>	<b>958,803</b>	<b>848,459</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest and Investment Revenue	55,516	209,975
Lease Revenue	3,593	3,573
Gain/(Loss) on Sale of Capital Assets	22,364	(38,855)
Interest Expense	(138,953)	(142,630)
Miscellaneous Non-Operating	2,931	2,250
Change in Associated Organization	(121,672)	(209,679)
<b>Total Nonoperation Revenues (Expenses)</b>	<b>(176,221)</b>	<b>(175,366)</b>
Income (Loss) Before Contributions	782,582	673,093
Capital Contributions - Loan Forgiveness	-	333,670
Capital Contributions - Connection Fees	115,646	278,411
<b>Change in Net Position</b>	<b>898,228</b>	<b>1,285,174</b>
<b>Total Net Position, January 1</b>	<b>19,294,001</b>	<b>18,008,827</b>
<b>Total Net Position, December 31</b>	<b>\$ 20,192,229</b>	<b>\$ 19,294,001</b>

**BEACON HILL WATER AND SEWER DISTRICT**  
**Statement of Cash Flows**  
**December 31, 2020 and 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 4,620,896	\$ 4,599,803
Payments for Goods & Services	(1,676,917)	(1,756,533)
Payments for Personnel	(1,351,609)	(1,182,486)
Other Receipts	6,524	5,823
Net Cash Provided (Used) by Operating Activities	<u>1,598,894</u>	<u>1,666,607</u>
<b>CASH FLOWS FROM CAPITAL AND REALATED FINANCING ACTIVITIES</b>		
Receipt of Capital Contributions	115,646	278,381
Purchase of Fixed Assets	(437,874)	(915,586)
Proceeds from Capital Related Debt	-	846,870
Proceeds on Sale of Capital Assets	22,364	-
Payments on Debt	(341,963)	(249,217)
Interest Payments on Debt	(140,574)	(517,970)
Net Cash Provided (Used) from Capital and Related Financing Activities	<u>(782,401)</u>	<u>(557,522)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Investment in Associated Organization	(359,336)	(269,347)
Receipt of Interest	55,516	209,975
Receipt of Sale of Investments	1,004,289	1,468,009
Net Cash Provided (Used) by Investing Activities	<u>700,469</u>	<u>1,408,637</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,516,962</b>	<b>2,517,722</b>
Cash and Cash Equivalents - January 1	9,953,537	7,435,815
Cash and Cash Equivalents - December 31	<u><b>\$ 11,470,499</b></u>	<u><b>\$ 9,953,537</b></u>
<b>Reconciliation to Net Position:</b>		
Cash and Cash Equivalents	\$ 9,215,022	\$ 7,556,139
Restricted Cash and Cash Equivalents	2,255,477	2,397,398
Total Cash and Cash Equivalents	<u><b>\$ 11,470,499</b></u>	<u><b>\$ 9,953,537</b></u>
<b>(USED) BY OPERATING ACTIVITIES</b>		
Net Operating Income (Loss)	\$ 958,803	\$ 848,459
<b>PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Depreciation and Amortization	757,800	735,976
Decrease (Increase) in Receivables	(41,924)	56,331
Increase (Decrease) in Accounts Payable	23,905	(12,595)
Increase (Decrease) in Customer Deposits	144	
Decrease (Increase) in Prepaid Items and Inventory	(10,235)	(13,745)
Increase (Decrease) in Other Payables	11,630	128,157
Increase (Decrease) in Pension Activity	(107,753)	(81,799)
Other Payments	6,524	5,823
Total Adjustments	<u>640,091</u>	<u>818,148</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>\$ 1,598,894</b></u>	<u><b>\$ 1,666,607</b></u>
<b>Noncash Transactions</b>		
Increase (Decrease) in Fair Value of Investments	-	\$ 31,991
Increase (Decrease) in Investment in Related Organization	79,943	14,631
Capital Assets Financed Through Accounts Payable	8,267	8,267
Gain (Loss) on Disposition of Capital Assets	-	(38,855)
Debt Forgiveness	-	333,700

**BEACON HILL WATER AND SEWER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Fiscal Year Ended December 31, 2020 and 2019

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

The accounting policies of Beacon Hill Water and Sewer District (District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant:

a. Reporting Entity

Beacon Hill Water and Sewer District is a municipal corporation governed by an elected three (3)-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Beacon Hill Water and Sewer 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 used the *Uniform System of Accounts for Class A Water Utilities and Class A 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.

The district distinguishes between operating revenues and expenses from non-operating ones. 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 service provided by the water and sewer systems. The district also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the district considers all liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash Equivalents include currency on hand, Washington State Public Deposit Protection Commission (PDPC) member bank deposits and investments in the Washington State Local Government Investment Pool (LGIP).

d. Utility Plant and Depreciation (See Note 4)

e. Restricted Assets

In accordance with the bond resolutions from the 2018 Revenue Bonds, separate restricted funds were established, which holds the following:

	<u>2020</u>	<u>2019</u>
Unspent Bond Proceeds	\$1,929,105	\$1,929,105
Interest earned unspent bond proceeds	68,959	56,290
Annual Bond Debt Service	<u>257,413</u>	<u>412,003</u>
Total Restricted Funds	\$2,255,477	\$2,397,398

f. Receivables

Customer accounts receivable consist of amounts owed for goods and services. Delinquent customer receivables are secured by liens against the serviced property per state law; therefore, there are no accounts “written off” as uncollectable. The district’s policy is to issue a letter of intent, with 60-calendar days to respond, to foreclose on utility charges and lien balances that exceed five years or \$4,000 for a single-family residence or commercial property, whichever comes first.

g. Inventories

Inventories are valued at cost, which approximates the market value, using average cost. Inventories were valued at \$44,063 as of December 31, 2020, and \$41,714 as of December 31, 2019.

h. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and recorded as prepaid items in the financial statements. As of December 31, 2020, the District reports \$108,352 in prepayments and as of December 31, 2019, \$100,466.

i. Investments (See Note 2)

j. Compensated Absences

The district records unpaid leave for compensated absences as an expense and liability when incurred. Compensated absences are absences for which employees will be paid, such as vacation and sick leave.

Vacation is earned in amounts varying from twelve (12) days after the first year to twenty-two (22) days after 18 years of service. Vacation may accrue to a total of thirty (30) days. Sick leave is granted at the rate of one working day per month and may accrue to one hundred fifty (150) working days. An employee separated from employment due to retirement or termination short of retirement age (except for due cause) shall be compensated one hundred (100) percent of his/her sick leave up to a maximum of ninety days, provided the employee has completed ten (10) years of service.

k. 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.

## 1. Use of Estimate

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

## **NOTE 2 – DEPOSITS AND INVESTMENTS**

### Cash and cash equivalents

The district's cash and cash equivalents are cash on hand, certificates of deposit, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested directly into government securities with interest accruing for the benefit of the investing funds. The interest earned on these investments is prorated to the various funds. This policy covers all funds operated by the district.

Certain Investments for the District are reported at fair value in accordance with GASB statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. Likewise, some investments are reported at amortized cost.

As of December 31, 2020, and December 31, 2019, the District cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

	2020	2019
Unrestricted		
Cash on Hand	\$2,744,891	\$2,122,943
State Treasurer's Investment Pool	6,470,131	5,433,196
US Government Agencies	-	1,004,289
Subtotal Unrestricted	9,215,022	8,560,428
Restricted		
Cash on Hand	257,413	412,003
State Treasurer's Investment Pool	1,998,064	1,985,395
Subtotal Restricted	\$2,255,477	\$2,397,398
<b>Total cash and investments</b>	<b>\$11,470,499</b>	<b>\$10,957,826</b>

The district as of December 31, 2020, had investments of \$8,468,195 and as of December 31, 2019, \$7,418,590 in the Washington State Local Government Investment Pool, which is classified as cash equivalents. Additional cash & cash equivalents consist of \$3,002,304 and \$2,534,947 as of December 31, 2020, and December 31, 2019, held in interest bearing bank accounts, petty cash, and cash change drawers.

### Deposits:

*Custodial credit risk (deposits).* Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The district has an adopted policy that addresses deposit custodial risk; however, the district's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool

administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the district's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

### Investments

In October 2010, Resolution No. 421 adopted a finance policy, which directs the setting of rates, use of debt and investment of funds in preparation for assuming those duties from Cowlitz County. In 2011, the district became its own treasurer, thus governing its own cash and investments.

Statutes authorize the district to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The district is also authorized to enter in to reverse repurchase agreements but did not participate in these investments during 2020 and 2019.

The district is currently invested in the Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost. Otherwise, investments for the district are reported at fair value.

The LGIP operates in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity, and shadow pricing requirements that allows it to report at amortized cost. Further, The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission

The weighted average maturities of the LGIP are less than three (3) months with cash available to the district on demand. The on-demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third-party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee.

#### *Investments Measured at Amortized Cost*

The district had investments at amortized cost in the State Investment Pool as of December 31, 2020, in the amount of \$8,468,195 and \$7,418,590 as of December 31, 2019.

The State Pool has elected to measure these investments at amortized cost. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five-day waiting period exists.

#### *Investments Measured at Fair Value*

The district measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: 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, to the extent observable inputs are not available.



The district had no Federal Farm Credit Bank debt security investments as of December 31, 2020, and \$1,004,289 in Federal Farm Credit Bank debt as of December 31, 2019, that had recurring fair value measurements at Level 2.

*Interest rate risk.* Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. The district manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the District's Investment Portfolio. This risk is measured using the weighted average to maturity method. The weighted average maturity on the Federal Farm Credit Bank is 36.6 months.

*Credit risk.* Credit risk is the risk that an issuer or related party will not fulfill its obligations. The district does not have a formal investment policy that limits its investment and diversification by investment type and issuer beyond the limits imposed by State law. As required by state law, all investments of the district's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, investments in the State Treasurer's Investment Pool, bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. The district holds Federal Farm Credit Bank investments, which have AA+ ratings from Standard & Poor's and AAA from Moody's Investors Service.

*Concentration of credit risk.* Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The district has not adopted a policy limiting the amount the district may invest in any one issuer. One hundred percent of the district's investments held at year-end are invested in securities that are not guaranteed by the US government or any Federal agency. However, the debt is insured by the Farm Credit System Insurance Corporation.

*Custodial credit risk (investments).* Custodial risk is the risk that, in the event of a failure of the counterparty, the government will not be able to recover its investments that are in the possession of an outside party. The district uses US Bank as the custodial agent for safekeeping of the district's investments. US Bank provides monthly reports on the district's securities, all of which are held in the district's name. The investments held by the district at year-end are all book-entry, registered securities.

Total cash and investments are stated at \$11,470,499 as December 31, 2020, and \$10,957,826 as of December 31, 2019. There is additional cash held in District accounts due to "float" of outstanding checks, which have not cleared the bank as of December 31, 2020, and December 31, 2019. Cash and investments held by the district per the bank account, including the un-cleared checks as of December 31, 2020, total \$11,529,979 and as of December 31, 2019, total \$10,966,757.

### **NOTE 3 – ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE**

Receivables as of December 31, 2020, and December 31, 2019, for the district are as follows:

	12/31/2020	12/31/2019
Trades Receivable		
Billed	\$452,972	\$430,189
Unbilled	202,824	176,267
Liens	(17,449)	(11,519)
Interest	1,794	3,280
Net Receivables	<u>\$640,141</u>	<u>\$598,217</u>

Payables as of December 31, 2020, and December 31, 2019, for the district are as follows:

	12/31/2020	12/31/2019
Trades Payable	\$88,597	\$64,692
Retainage	8,267	8,267
Wages	34,230	23,843
Interest	16,516	18,137
Net Payables	<u>\$147,610</u>	<u>\$114,939</u>

#### **NOTE 4 – UTILITY PLANT AND DEPRECIATION (CAPITAL ASSETS)**

Capital assets are defined by the district as assets with initial individual cost of \$5,000 or more and an estimated useful life more than 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated historical cost. Donations by developers and customers are recorded at acquisition value.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of assets constructed.

Capital assets are depreciated using the straight-line method. Estimated useful lives are as follows:

Class	Years
Computers & Software	3 - 7
Collection Sewers-Force	10 - 40
Distribution Reservoirs & Standpipes	10 - 50
Hydrants	40
Meters	20 - 40
Equipment	5 - 35
Structures & Improvements	5 - 50
Services	40
Transmission & Distribution Mains	10 - 40
Wells & Springs	20 - 30

Utility plant activities for the year ended December 31, 2020, were as follows:

	1/1/2020	Increase	Decrease	12/31/2020
Utility Plant not being depreciated:				
Land	\$416,686	-	-	\$416,686
Construction in Progress	273,839	321,455	(158,517)	436,777
Total utility plant not being depreciated	690,525	321,455	(158,517)	853,463
Utility plant being depreciated:				
Plant	25,952,606	198,050	(37,573)	26,113,083
Equipment	965,870	76,885	(43,361)	999,394
Intangible Assets	134,759	-	-	134,759
Total utility plant being depreciated	27,053,235	274,935	(80,934)	27,247,236
Less accumulated depreciation:				
Plant	13,008,435	668,989	(37,573)	13,639,851
Equipment	662,628	82,073	(43,361)	701,340
Intangible Assets	89,839	6,738	-	96,577
Total accumulated depreciation	13,760,902	757,800	(80,934)	14,437,768
Total utility plant being depreciated, net	\$13,292,333	(482,865)	-	12,809,468
TOTAL UTILITY PLANT, NET	\$13,982,858	(161,410)	(\$158,517)	\$13,662,931

Utility plant activities for the year ended December 31, 2019, were as follows:

	1/1/2019	Increase	Decrease	12/31/2019
Utility Plant not being depreciated:				
Land	\$416,686	-	-	\$416,686
Construction in Progress	1,110,935	1,032,712	(1,869,808)	273,839
Total utility plant not being depreciated	1,527,621	1,032,712	(1,869,808)	690,525
Utility plant being depreciated:				
Plant	24,556,413	1,641,178	(244,985)	25,952,606
Equipment	886,101	106,254	(26,485)	965,870
Intangible Assets	134,759	-	-	134,759
Total utility plant being depreciated	25,577,273	1,747,432	(271,470)	27,053,235
Less accumulated depreciation:				
Plant	12,558,220	656,345	(206,130)	13,008,435
Equipment	616,219	72,893	(26,484)	662,628
Intangible Assets	83,101	6,738	-	89,839
Total accumulated depreciation	13,257,540	735,976	(232,614)	13,760,902
Total utility plant being depreciated, net	\$12,319,733	\$1,011,456	(38,856)	\$13,292,333
TOTAL UTILITY PLANT, NET	\$13,847,354	\$2,044,168	(\$1,908,664)	\$13,982,858

## **NOTE 5 – CONSTRUCTION COMMITMENTS**

Construction in progress represents activities to date on projects whose authorizations, committed and future funding is as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Authorizations	\$5,143,600	\$273,839
Committed	\$4,506,823	\$207,499
Future Financing of Committed	\$2,060,400	None

## **NOTE 6 – OTHER PROPERTY AND INVESTMENTS**

### **a. Regional Water Treatment Plant**

In December 1978, Cowlitz Public Utility District No. 1 entered into an agreement with the City of Longview to construct the Regional Water Treatment Plant (RWTP). The arrangement was organized to acquire and construct a new facility to provide treated water to the residents of the Ownership of the RWTP is based on total historical usage from the plant. In December 2010, the PUD's interest in the RWTP was transferred to Beacon Hill Water and Sewer District. The district's ownership ratio at December 31, 2020, was 14.97%. The district's share of the RWTP was \$103,293 as of December 31, 2020, which represented an increase in minority interest in 2020 of \$157,722 related to operating and maintenance and a gain of \$79,943 in capital financing participation. The district's ownership ratio at December 31, 2019, was 14.89%. The district's share of the RWTP was (\$134,372) as of December 31, 2019, which represented an increase in minority interest in 2019 of \$45,037 related to operating and maintenance and a gain of \$14,631 in capital financing participation. A three-member board, comprised of two city representatives and one District representative, administer the joint operation. Water wheeling agreements are in effect between the district and the cities of Longview and Kelso providing for the delivery of water from the RWTP to the respective areas of the district's water system. The treatment plant does not have separate legal status and is intended to be an ongoing, long-term relationship; therefore, it is not a joint venture. The RWTP is reported as a component of the City of Longview's water-sewer fund. The financial statements can be obtained through the city.

### **b. Three Rivers Regional Waste Water Authority**

In 1996, the district entered in to a Interlocal agreement with Cowlitz County, City of Kelso, and City of Longview, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility.

On July 1, 2016, TRRWA formed a Joint Municipal Utility Service Authority (TRRWA JMUSA). This agreement was organized and created under and pursuant to the authority and provisions of RCW chapter 39.106, to provide sanitary sewer treatment and disposal services for its members and to operate, maintain and improve the Regional Assets more effectively and efficiently. As of the operation date of July 1, 2016, the TRRWA JMUSA replaced all pre-formation agreements. All existing capacity rights and financial obligations of the original members under the terms of the pre-formation agreements are transferred to each of the original members under the TRRWA JMUSA. Each member appoints a representative to serve on TRRWA JMUSA's four-member Board of Directors and a different representative to serve on the four-member Operating Board. These Boards exercise necessary powers and responsibilities to operate and maintain the Regional Assets, while ensuring representation in regional authority governance by each party.

Based on the annual budget, the Operating Board will adopt rates, charges, fees, or other payments charged to the Members for treatment of sewage, septage, external sewage sources and provisions of treatment and

related services to the Members in amounts at least sufficient for TRRWA to maintain and operate the Regional Assets and pay the principal of, interest on, and coverage covenants with respect to any and all revenue Bonds that constitute a charge upon Regional Asset revenues. Each Member must make monthly payments to TRRWA for these rates, charges, fees, or other payments established by TRRWA based on each Members proportionate share of flow to the facilities as determined by TRWWA.

Capital improvements to the facility are funded by system development charges by each entity's sewer operations in proportion to each jurisdiction's respective flow to the facilities. Payments made to TRRWA by the District were \$618,070 and \$775,743 in 2020 and 2019, respectively.

This agreement may not be terminated so long as there remains any outstanding bonds payable from TRRWA rates. The Board of Directors actions require both a majority vote of the Board of Directors and approval by Directors representing Members paying more than 50% of the M&O Component, unadjusted for the prior Flow portion period, to terminate this agreement. Prior to termination, the Members must develop a plan of dissolution to wind up TRRWA's affairs. The district is a separate entity with no equity interest and not subject to any reporting requirements. On July 1, 2016, TRRWA JMUSA became its own treasurer and responsible for its reporting requirements. Complete financial statements for the TRRWA JMUSA can be obtained from the TRRWA at 467 Fibre Way, Longview, WA 98632.

## **NOTE 7 – LONG TERM DEBT AND LIABILITIES**

### **a. Long-Term Debt**

#### **Direct Borrowing Loans**

The State of Washington offers low-cost financing programs that allow public entities to borrow funds to finance public works projects, the Public Works Trust Fund Loans (PWTF) and Drinking Water State Revolving Fund Loans (DWSRF). These loans are payable from the revenues of the District and are unsecured. If the District is late on a scheduled payment a late charge of 1% per month/12% per annum calculated on a 360-day year will be charged by the State starting on the date the debt become past due and continuing until the debt is paid in full. For loans PWTF Loan PW-01-691-021 and PWTF Loan PW-03-691-008, in the event of default, the principal and interest may be declared due and become payable immediately, with any repayments not immediately made incurring late charges. The District will pay any legal fees.

The District's Direct Borrowing loans payable for these debts as of December 31, 2020, and December 31, 2019, are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/20 Debt Outstanding	12/31/19 Debt Outstanding
PWTF Loan PW-01-691-021	7/1/2002	7/1/2021	0.50%	\$396,872	\$ 20,853	\$41,706
PWTF Loan PW-03-691-008	7/1/2004	7/1/2023	0.50%	381,243	63,450	84,600
PWTF Loan PE 10-951-004	7/1/2011	7/1/2030	3.00%	350,000	137,075	202,632
PWTF Loan PC 12-951-086	6/1/2012	6/1/2031	0.50%	435,740	259,939	283,570
DWSRF Loan DM 13-952-162	10/1/2014	10/1/2037	1.00%	701,623	561,299	596,380
DWSRF Loan DM 16-952-035	12/1/2015	7/1/2020	1.00%	778,633	739,701	778,633
Total Loans				\$3,044,111	\$1,782,317	\$1,987,521

Hillside Pump Station Reconstruction Drinking Water State Revolving Fund Loan was authorized on December 1, 2015. The draws on this authorized loan were \$126,987 in 2017, \$138,476 in 2018, and \$46,870 in 2019. A loan forgiveness of 30% or \$333,670 was applied to the loan at time of closing in 2019.

Fiscal Year Ending December 31, 2020, the annual requirements to amortize all loans outstanding, including interest, is as follows:

Year	Principal	Interest	Total
2021	\$207,171	\$18,194	\$225,365
2022	188,344	15,159	203,503
2023	118,794	12,167	130,961
2024	97,644	11,262	108,906
2025	97,644	10,463	108,107
2026-2030	488,218	40,327	528,545
2031-2035	393,695	20,701	414,396
2036-2040	190,807	4,244	195,051
Total	<u>\$1,782,317</u>	<u>\$132,517</u>	<u>\$1,914,834</u>

Fiscal Year Ending December 31, 2019, the annual requirements to amortize bonds outstanding, including interest are as follows:

Year	Principal	Interest	Total
2020	\$205,204	\$21,170	\$226,374
2021	207,171	18,194	225,365
2022	188,344	15,159	203,503
2023	118,794	12,167	130,961
2024	97,644	11,262	108,906
2025-2029	488,218	44,323	532,541
2030-2034	417,326	24,520	441,846
2035-2039	264,820	6,892	271,712
Total	<u>\$1,987,521</u>	<u>\$153,687</u>	<u>\$2,141,208</u>

### Bonds Payable

In 2018, the district authorized and issued 20-year revenue bonds in the amount of \$3,450,000. The proceeds reimbursed expenditures on current capital projects in progress in the amount of \$1,673,073 and the remaining \$1,929,106 invested in the WA State Local Government Investment Pool restricted for future capital projects.

The District's Long-Term bonds payable, as December 31, 2020, and 2019 respectively, are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/20 Debt Outstanding	12/31/219 Debt Outstanding
2018 Revenue Bonds	9/13/2018	12/1/2038	3% - 4.25%	\$3,450,000	\$3,230,000	\$3,355,000

Fiscal Year Ending December 31, 2020, the annual requirements to amortize bonds outstanding, including interest are as follows:

Year	Principal	Interest	Total
2021	\$130,000	\$127,413	\$257,413
2022	130,000	123,512	253,512
2023	130,000	119,613	249,613
2024	140,000	114,412	254,412
2025	150,000	108,813	258,813
2026-2030	835,000	447,837	1,282,837
2031-2035	1,010,000	265,600	1,275,600
2036-2040	705,000	57,200	762,200
Total	\$3,230,000	\$1,364,400	\$4,594,400

Fiscal Year Ending December 31, 2019, the annual requirements to amortize bonds outstanding, including interest are as follows:

Year	Principal	Interest	Total
2020	\$125,000	\$131,163	\$256,163
2021	130,000	127,413	257,413
2022	130,000	123,513	253,513
2023	130,000	119,613	249,613
2024	140,000	114,413	254,413
2025-2029	805,000	480,850	1,285,850
2030-2034	970,000	304,400	1,274,400
2035-2039	925,000	94,200	1,019,200
Total	\$3,355,000	\$1,495,565	\$4,850,565

b. Changes in Long-Term Liabilities:

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

Liability	Beginning Balance 01/01/2020	Additions	Reductions	Ending Balance 12/31/2020	Due Within One Year
Direct Borrowing Loans Payable					
Public Works Trust Fund Loans	\$612,508	-	\$131,191	\$481,317	\$133,158
Public Works DWSRF Loan	1,375,013	-	74,013	1,301,000	74,013
Subtotal Loans Payable	1,987,521	-	205,204	1,782,317	207,171
Bonds Payable					
Revenue Bonds	3,355,000	-	125,000	3,230,000	130,000
Issuance Premium	222,439	-	11,759	210,680	11,759
Subtotal Bonds Payable	3,577,439	-	136,759	3,440,680	141,759
Compensated Absences	207,516	1,243	-	208,759	95,639
Net Pension Liability	279,939	-	11,310	268,629	-
Total Long-Term Liabilities	\$6,052,415	\$1,243	\$353,273	\$5,700,385	\$444,569

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

Liability	Beginning Balance 01/01/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Direct Borrowing Loans Payable:					
Public Works Trust Fund Loans	\$696,563	\$ -	\$84,055	\$612,508	\$131,191
Public Works DWSRF Loan	932,005	846,870	403,862	1,375,013	74,013
Subtotal Loans	1,628,568	846,870	487,917	1,987,521	205,204
Bonds Payable:					
Revenue Bonds	3,450,000	-	95,000	3,355,000	125,000
Issuance Premium	234,198	-	11,759	222,439	11,759
Subtotal Bonds Payable	3,684,198	-	106,759	3,577,439	136,759
Compensated Absences	81,240	126,276	-	207,516	94,707
Net Pension Liability	361,247	-	81,308	279,939	-
Total Long-Term Liabilities	\$5,755,253	\$973,146	\$675,984	\$6,052,415	\$436,670

#### **NOTE 8 – PENSION PLAN**

The following table represents the aggregate pension amounts for all plans for the year 2020 and 2019:

<b>Aggregate Pension Amounts - All Plans</b>		
	<b>12/31/2020</b>	<b>12/31/2019</b>
Pension liabilities	\$ 268,629	\$ 279,939
Deferred outflows of resources	97,972	78,981
deferred inflows of resources	84,645	162,097
Pension expense/expenditures	4,834	16,609

#### **State Sponsored Pension Plans**

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

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

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

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



## Public Employees' Retirement System (PERS)

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

**PERS Plan 1** provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

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

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

**PERS Plan 2/3** provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include

a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

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

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

The Beacon Hill WSD's actual PERS plan contributions were \$42,479 to PERS Plan 1 and \$70,108 to PERS Plan 2/3 for the year ended December 31, 2020.

### **Actuarial Assumptions**

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

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

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

Mortality rates were based on the Pub.H-2010 tables, 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 the MP-2017 improvement scale. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values in 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

### **Discount Rate**

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based

on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions 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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%
	<b>100.00%</b>	

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

The table below presents the Beacon Hill WSD's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Beacon Hill WSD'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.

<b>2020</b>	<b>1% Decrease 6.40%</b>	<b>Current Rate 7.40%</b>	<b>1% Increase 8.40%</b>
PERS 1	228,407	182,352	142,188
PERS 2/3	536,842	86,277	(284,762)

<b>2019</b>	<b>1% Decrease 6.40%</b>	<b>Current Rate 7.40%</b>	<b>1% Increase 8.40%</b>
PERS 1	264,377	211,110	164,894
PERS 2/3	527,892	68,829	(307,862)

### **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, 2020, the Beacon Hill WSD reported a total pension liability of \$268,629 for its proportionate share of the net pension liabilities as follows:

<b>Plan</b>	<b>Liability or (Asset)</b>	
	<b>2020</b>	<b>2019</b>
PERS 1	\$ 182,352	\$ 211,110
PERS 2/3	86,277	68,829

At June 30, 2020, the Beacon Hill WSD's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 06/30/19</b>	<b>Proportionate Share 06/30/2020</b>	<b>Change in Proportion</b>
PERS 1	0.00549%	0.00517%	-0.00033%
PERS 2/3	0.00709%	0.00675%	-0.00034%

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

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

### **Pension Expense**

For the year ended December 31, 2020, the Beacon Hill WSD recognized pension expense as follows:

	<b>Pension Expense</b>	
	<b>2020</b>	<b>2019</b>
PERS 1	\$ (2,926)	\$ 11,368
PERS 2/3	7,760	5,241
Total	\$ 4,834	\$ 16,609

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020 and December 31, 2019, the Beacon Hill WSD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

2020		
<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,015)
Contributions subsequent to the measurement date	23,205	-
<b>TOTAL</b>	\$ 23,205	\$ (1,015)
<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 30,886	\$ (10,813)
Net difference between projected and actual investment earnings on pension plan investments	-	(4,382)
Changes of assumptions	1,229	(58,935)
Changes in proportion and differences between contributions and proportionate share of contributions	4,614	(9,500)
Contributions subsequent to the measurement date	38,038	
<b>TOTAL</b>	\$ 74,767	\$ (83,630)
<b>TOTAL ALL PLANS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 30,886	\$ (10,813)
Net difference between projected and actual investment earnings on pension plan investments	-	(5,397)
Changes of assumptions	1,229	(58,935)

Changes in proportion and differences between contributions and proportionate share of contributions	4,614	(9,500)
Contributions subsequent to the measurement date	61,243	-
<b>TOTAL</b>	<b>\$ 97,972</b>	<b>\$ (84,645)</b>

<b>2019</b>		
<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (14,104)
Contributions subsequent to the measurement date	19,646	-
<b>TOTAL</b>	<b>\$ 19,646</b>	<b>\$ (14,104)</b>
<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	19,720	(14,798)
Net difference between projected and actual investment earnings on pension plan investments	-	(100,187)
Changes of assumptions	1,762	(28,878)
Changes in proportion and differences between contributions and proportionate share of contributions	5,605	(4,130)
Contributions subsequent to the measurement date	32,248	-
<b>TOTAL</b>	<b>\$ 59,335</b>	<b>\$ (147,993)</b>
<b>TOTAL ALL PLANS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 19,720	\$ (14,798)
Net difference between projected and actual investment earnings on pension plan investments	-	(114,291)
Changes of assumptions	1,762	(28,878)



Changes in proportion and differences between contributions and proportionate share of contributions	5,605	(4,130)
Contributions subsequent to the measurement date	51,894	-
<b>TOTAL</b>	<b>\$ 78,981</b>	<b>\$ (162,097)</b>

Deferred outflows of resources related to pensions resulting from the Beacon Hill WSD's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2021	\$ (4,607)	\$ (36,561)
2022	(145)	(9,318)
2023	1,406	773
2024	2,331	7,339
2025	-	(3,789)
Thereafter	-	(5,345)

## **NOTE 9 – RISK MANAGEMENT**

The Beacon Hill Water & Sewer District (District) is a 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 70 members. The Pool's fiscal year is November 1<sup>st</sup> through October 31<sup>st</sup>.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; 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
<b>Property Loss:</b>			
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, \$10,000,000 dedicated to Sammamish Plateau)
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	Replacement Value Coverage
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, 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
<b>Other:</b>			
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			

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, 2021, written notice must be in possession of the Pool by April 30, 2021). 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.

#### **NOTE 10 – OPERATING LEASES**

The district is obligated under certain leases accounted for as operating leases. These represent lease of land for radio towers. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the district's statement of net position. Increases in rent, if any, are contingent upon the consumer price index at defined intervals. For both, 2019 and 2020, the district had one current operating lease agreement.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms more than one year as of December 31, 2020:

Year Ending December 31	Total
2021 (remainder of initial lease)	\$ 3,219
2022-2026 (5 yr. renewal option 1)	16,095
2027-2031 (5 yr. renewal option 2 )	16,095
2032-2036 (5 yr. renewal option 3)	16,095
2037-2041 (5 yr. renewal option 4)	16,095
Total minimum payments required if renewal options exercised	<u>\$67,599</u>

Total minimum payments required for year ending December 31, 2020, was \$3,219, and December 31, 2019, \$2,975.

#### **NOTE 11 – COVID 19 Pandemic**

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration , precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges, and universities , cancelling public events, and limiting gathering sizes.

Management implemented measures to comply with changing requirements of the Governor's declarations and monitored activity closely to try to limit the financial impact on the district.

Overall, the full extent of the financial impact on the district is unknown at this time. What we do know is that the district experienced reduced revenues and cash flows relating to the restrictions on its procedures for collecting on past due accounts. Some of this revenue loss was offset by reduced labor cost as employees worked less overtime and remotely at times.

**Beacon Hill Water & Sewer District**  
**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**  
Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last Seven Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.005165%	\$ 182,352	\$ 814,285	22.39%	68.48%
2019	0.005490%	211,110	741,287	28.48%	67.12%
2018	0.005421%	242,104	721,115	33.57%	63.22%
2017	0.005359%	254,289	675,749	37.63%	61.24%
2016	0.005438%	292,046	673,785	43.34%	57.03%
2015	0.006205%	324,579	711,100	45.64%	59.10%
2014	0.005881%	296,258	599,136	49.45%	61.19%

**Beacon Hill Water & Sewer District**  
**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**  
Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30

Last Seven Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.006746%	\$ 86,277	\$ 814,285	10.60%	97.22%
2019	0.007086%	68,829	741,287	9.29%	97.77%
2018	0.006978%	119,143	721,115	16.52%	95.77%
2017	0.006893%	239,499	675,749	35.44%	90.97%
2016	0.006976%	351,236	673,785	52.13%	85.82%
2015	0.008013%	286,309	711,100	40.26%	89.20%
2014	0.007832%	158,313	599,136	26.42%	93.29%

**Beacon Hill Water & Sewer District**  
**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**  
Schedule of Employer Contributions

PERS 1

As of December 31

Last Seven Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
	\$	\$	\$	\$	
2020	42,479	(42,479)	-	885,192	4.80%
2019	38,509	(38,509)	-	777,059	4.96%
2018	37,297	(37,297)	-	737,042	5.06%
2017	34,349	(34,349)	-	701,334	4.90%
2016	31,653	(31,653)	-	663,583	4.77%
2015	30,266	(30,266)	-	661,216	4.58%
2014	27,060	(27,060)	-	657,711	4.11%

**Beacon Hill Water & Sewer District**  
**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

Schedule of Employer Contributions

PERS 2/3

As of December 31

Last Seven Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2020	\$ 70,108	\$ (70,108)	\$ -	\$ 885,192	7.92%
2019	59,899	(59,899)	-	777,059	7.71%
2018	55,272	(55,272)	-	737,042	7.50%
2017	48,034	(48,034)	-	701,334	6.85%
2016	41,342	(41,342)	-	663,583	6.23%
2015	38,849	(38,849)	-	661,216	5.88%
2014	33,515	(33,515)	-	657,711	5.10%

**Beacon Hill Water & Sewer District**  
Notes to Required Supplemental Information - Pension

As of December 31  
Last Seven Years

**Note 1:** Information Provided

GASB 68 was implemented for the year ended December 31, 2014, therefore there is no data available for years prior to 2014. Eventually, the schedules will show ten years of data.

**Note 2:** Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

**Note 3:** Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

**Note 4:** Contribution rates

Rates in effect during the periods covered by the Required Supplemental Information are below:

**PERS 1**

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	current	12.97% *

\* Employer contribution rate includes an administrative expense rate of 0.18%

**PERS 2/3**

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	current	12.97% *

\* Employer contribution rate includes an administrative expense rate of 0.18%



## 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](http://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.

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