



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Covington Water District

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

*Published October 21, 2021*

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

October 21, 2021

Board of Commissioners  
Covington Water District  
Covington, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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

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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*

### **Covington Water District January 1, 2020 through December 31, 2020**

Board of Commissioners  
Covington Water District  
Covington, 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 Covington Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2021.

As discussed in Note 12 to the 2020 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 audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

October 18, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Covington Water District January 1, 2020 through December 31, 2020**

Board of Commissioners  
Covington Water District  
Covington, Washington

#### **REPORT ON THE FINANCIAL STATEMENTS**

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

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

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

#### **Auditor's Responsibility**

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

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

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

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

## **Opinion**

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

## **Matters of Emphasis**

As discussed in Note 12 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct and indirect financial impact on the District 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 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 18, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant

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

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

Pat McCarthy, State Auditor

Olympia, WA

October 18, 2021



**Covington Water District  
January 1, 2020 through December 31, 2020**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2020

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2020

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

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

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

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Management's Discussion and Analysis (MD&A)  
For the year ended December 31, 2020

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## INTRODUCTION

As management of the Covington Water District (district), we have prepared a narrative overview and analysis of the financial activities of the district for the fiscal year ended December 31, 2020. Please read this in conjunction with the financial statements, including the notes to the financial statements, following this commentary.

## FINANCIAL HIGHLIGHTS

- The district's assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$147 million as of December 31, 2020.
- The district had a positive change in net position of \$6.3 million for the year ended December 31, 2020.
- The district's required bond debt service coverage ratio was 11.45 as of December 31, 2020. This far exceeds the minimum requirement identified in the bond covenants of 1.25.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the district's basic financial statements. In accordance with requirements set forth by the Governmental Accounting Standards Board, the district's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2020 are comprised of:

- **Statement of Net Position:** The statement of net position provides a record, or snap shot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the district at the close of the year. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to district creditors (liabilities). It provides a basis for evaluating the capital structure of the district and assessing its liquidity and financial flexibility.
- **Statement of Revenues, Expenses, and Changes in Fund Net Position:** The statement of revenues, expenses and changes in fund net position presents the results of the district's

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Management's Discussion and Analysis (MD&A)  
For the year ended December 31, 2020

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business activities over the course of the year. This information can be used to determine whether the district successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

- **Statement of Cash Flows:** The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities over the course of the year. It presents information regarding where cash originated and what it expended for.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the district's presentation of financial position, results of operations and changes in cash flows. The notes provide additional information necessary to acquire a full understanding of the data provided in the district's financial statements. The notes can provide useful information regarding the district's significant accounting policies; explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

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**CONDENSED COMPARATIVE FINANCIAL DATA****Statement of Net Position**

	2020	2019	Increase (Decrease)	% Change
<b>ASSETS</b>				
Current assets	\$ 44,823,503	\$ 39,267,143	\$ 5,556,360	14.1%
Capital assets, net	143,094,571	145,583,157	(2,488,586)	(1.7%)
Other non-current assets	800,903	831,085	(30,182)	(3.6%)
<b>TOTAL ASSETS</b>	<b>188,718,977</b>	<b>185,681,385</b>	<b>3,037,592</b>	<b>1.6%</b>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>				
	<b>367,910</b>	<b>328,727</b>	<b>39,183</b>	<b>11.9%</b>
<b>LIABILITIES</b>				
Current liabilities	3,761,971	4,597,659	(835,688)	(18.2%)
Non-current liabilities	35,675,644	37,636,653	(1,961,009)	(5.2%)
<b>TOTAL LIABILITIES</b>	<b>39,437,615</b>	<b>42,234,312</b>	<b>(2,796,697)</b>	<b>(6.6%)</b>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>				
	<b>2,062,410</b>	<b>2,538,636</b>	<b>(476,226)</b>	<b>(18.8%)</b>
<b>NET POSITION</b>				
Net investment in capital assets	106,088,561	105,308,492	780,069	0.7%
Restricted	3,037,016	3,344,502	(307,486)	(9.2%)
Unrestricted	38,461,285	32,584,170	5,877,115	18%
<b>TOTAL NET POSITION</b>	<b>\$ 147,586,862</b>	<b>\$ 141,237,164</b>	<b>6,349,698</b>	<b>4.5%</b>

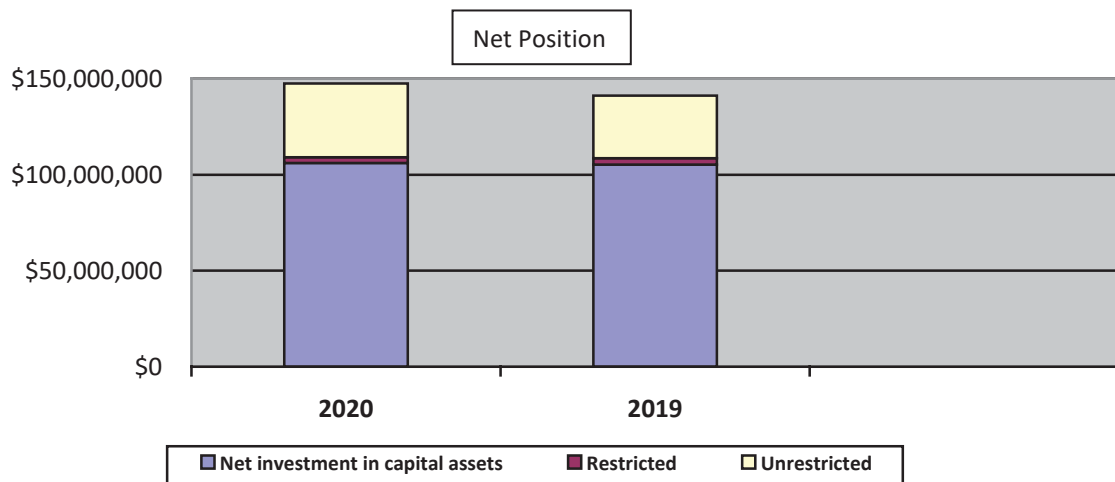
**Analysis of the Statement of Net Position**

- The increase in current assets of approximately \$5.5 million, or 14.1%, from 2019 to 2020 is primarily related to increased cash on hand.
- Capital assets consist of land, construction work in progress, and property & equipment, less accumulated depreciation. The decrease in net capital assets of \$2.4 million, approximately 1.7%, is the net effect of net increase in asset additions, net decrease in construction work in progress, and net increase in accumulated depreciation.
- The decrease in other non-current assets of \$30,182 is primarily related to WD#111 receivables, net of current portion in 2020.
- The increase in deferred outflows of resources of \$39,183 is due to the net increase of decreased loss on refunding, increased deferred outflows related to pensions, and increased deferred outflows related to OPEB.

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 Management’s Discussion and Analysis (MD&A)  
 For the year ended December 31, 2020

- The decrease in current liabilities of \$835,688 or 18.2% is due to the net effect of decreases primarily in accounts payable, and current portion of long term debt from 2019 to 2020.
- The decrease in non-current liabilities from 2019 to 2020 of \$1.9 or 5.2% is primarily related to the reduction in long term payable portions of debt due to scheduled debt payments in 2020.
- The decrease in deferred inflows of resources of \$476,226 is a net result of the decreases in deferred inflows related to pensions and the decrease in deferred inflows related to deferred gain on refunding due to regular straight line amortization.
- The district’s net position increased by approximately \$6.3 million from 2019 to 2020 as a direct result of the overall positive net change in position during 2020.

The district shows positive balances in all categories of net position.



Having looked at the Statement of Net Position in detail, another common financial analysis tool is the Quick Ratio which compares the most liquid assets (non-restricted cash and equivalents) to current liabilities in order to assess the organization’s ability to meet obligations. The district’s Quick Ratio is 10.49 (\$39.4M cash/\$3.7M current liabilities) for 2020. While there are no set ‘rules’ regarding Quick Ratios, district management believes this is a very healthy ratio.

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 For the year ended December 31, 2020

**Statement of Revenues, Expenses, and Changes in Fund Net Position**

	2020	2019	Increase (Decrease)	% Change
Water service revenues	\$ 14,122,562	\$ 13,406,932	\$715,630	5.3%
Other operating revenues	561,831	721,296	(159,465)	(22.1%)
Non-operating revenues	565,219	801,462	(236,243)	(29.5%)
<b>TOTAL REVENUES</b>	<b>15,249,612</b>	<b>14,929,690</b>	<b>319,922</b>	<b>2.1%</b>
Production, operations, maintenance	3,212,687	3,198,073	14,614	.4%
Administrative, taxes	5,502,448	4,745,741	756,707	15.9%
Depreciation expense	4,649,241	4,431,366	217,875	4.9%
Non-operating expenses	883,424	1,256,422	(372,998)	(29.7%)
<b>TOTAL EXPENSES</b>	<b>14,247,800</b>	<b>13,631,602</b>	<b>616,198</b>	<b>4.5%</b>
<b>EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS</b>	<b>1,001,812</b>	<b>1,298,088</b>	<b>(296,276)</b>	<b>(22.8)%</b>
Capital contributions	5,331,693	7,701,108	(2,369,415)	(30.7%)
Federal grants	16,193	---	16,193	100%
<b>CHANGE IN NET POSITION</b>	<b>6,349,698</b>	<b>8,999,196</b>	<b>(2,649,498)</b>	<b>(29.4%)</b>
<b>BEGINNING NET POSITION</b>	141,237,164	132,237,968	8,999,196	<b>6.8%</b>
<b>ENDING NET POSITION</b>	<b>\$ 147,586,862</b>	<b>\$ 141,237,164</b>	<b>\$6,349,698</b>	<b>4.5%</b>

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

- Water service revenue increased 5.3% in 2020, which is a result of weather related increased residential water sales and flat rate revenue as compared to 2019.
- Other operating revenues consist of street lights, late fees and other miscellaneous charges related to water customer accounts. The decrease of 22.1% in 2020 is reasonable as it primarily consists of the decrease in late payment and non-payment fees as these fees were waived during COVID-19 per the governor's orders. For additional information on COVID-19, see Note 12 in the notes to the financial statements.
- The decrease in non-operating revenues of \$236,243 is primarily due to an decrease in interest income from the prior year.
- Production, operations, and maintenance expenses increased by .4% in 2020, which fluctuates by nature and is considered reasonable.

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- Administrative expenses fluctuate by nature and a increase of 15.9% is considered reasonable.
- Depreciation expense is a non-cash operating expense that systematically allocates the historical cost of a capital asset over its useful life. It is a proxy for the cost of using a capital asset or for the gradual wearing out of a capital asset over time. The district starts charging depreciation expense in the year following the capitalization of an asset. The expense in 2020 is reasonable based on the assets in service.
- The decrease in 2020 from 2019 of non-operating expenses of 29.7% is due to a combination of reduction in interest expense as principal amounts continue to decrease and reduction of loss on disposition of capital assets from the prior year.
- Capital contributions are comprised of meter installation charges, connection charges, and donated capital assets. There was a net decrease from the prior year in total capital contributions of 30.6% in 2020.
  - **Meter installation charges-** The meter installation is the last step in the connection process. Once the meter installation charge has been collected and the meter installed, the customer becomes a part of the utility billing process. Meter installation charges fluctuate by nature from year to year based on development. Meter installations and therefore charges, increased in 2020 by 31.3%.
  - **Connection charges-** The district collects connection charges in order to ensure that future customers bear most of the burden of growth. Connection charges consist of the Future Facilities Fee (new customers' proportionate share of future facilities needed to serve each new customer); Existing Facilities Fee (new customer proportionate share of existing system general supply and storage facilities) and Existing Distribution Facilities Fee (new customers' proportionate share of existing pipes, hydrants, valves and distribution facilities). Connection charges are collected in stages as the water availability certificate is issued, the system extension application is approved, the completed system is accepted by the district, and the meter application is submitted. The entire process typically extends over several years. The bulk of the facility charge revenue represents a small number of large developer projects – typically only 20 to 25 projects are in process at a time. The timing is not subject to the district's control and the total revenue can substantially vary from year to year with the delay or acceleration of only a few projects. Connection charges received in 2020 were 48.7% higher than the prior year.

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Management's Discussion and Analysis (MD&A)  
For the year ended December 31, 2020

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- **Donated capital assets-** The district also receives additions to the distribution system from developers. Donated capital assets are recognized when the system is completed according to the district's specifications and accepted by the district. The timing is not subject to the district's control, and therefore fluctuates by nature from year to year. Donated capital assets decreased in 2020 from the prior year by 73.9%.
- Federal Grants were received through the City of Covington as part of the CARES Act related to COVID-19 relief.

The district recorded a positive change in Net Position in 2020 of \$6,349,698 as a result of the combination of the items outlined in the bullet points above.

### **OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The district's overall financial position has improved since the prior year, with a healthy increase in net position for 2020. The district's financial condition remains strong at 2020 year-end with adequate liquid assets, positive operating cash flow, a robust unrestricted net position, reliable plants and systems and favorable debt service coverage ratios.

The district expects to see continued growth in its service area. As a result, operating expenses are expected to continue to increase proportionately due primarily to plant expansion necessary to meet anticipated customer needs, increased depreciation, increased supply costs and increased security requirements. Due to the District's strong financial position at the end of 2020, the District did not increase 2021 water rates.

The expected growth in the service area will also require increased capital investment to meet fire flow requirements of the newer cities in the area, make system improvements concurrent with the cities' road improvements to avoid the cost of resurfacing, and to respond to increased water quality regulations and conservation requirements.

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

#### **Capital Assets**

Capital assets consist of land, construction work in progress, and capital assets such as infrastructure (utility plant), buildings, technology, office equipment, transportation, machinery and equipment. Capital assets are recorded at cost and depreciated over the estimated useful life of the asset (3 to 100 years) using the straight-line method beginning the year after it is placed in service. A corresponding contra-asset account depicts the accumulated depreciation. The net value of an asset at any point in time consists of the historical cost less the accumulated



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 Management's Discussion and Analysis (MD&A)  
 For the year ended December 31, 2020

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depreciation. Note that land is not depreciated according to generally accepted accounting principles, therefore land continues to be valued at historical cost over time.

For additional information on capital assets, see Note 3 in the notes to the financial statements.

The overall net decrease of \$2,488,586 in net capital assets consisted of:

Item	Net Increase (Decrease)
Donated assets (infrastructure donated by developers & customers)	\$ 1,300,208
Net book value of asset disposals	(352)
Capital asset additions	1,588,638
Construction work in progress	(727,839)
Depreciation	(4,649,241)
Net decrease	\$ (2,488,586)

- The \$1,300,208 in donated assets in 2020 consists of eight developer extension projects that range in amounts from approximately \$51k to \$284k, in addition to donated meters from customers.
- The \$1,588,638 net increase in capital asset additions is related to the completion and close out of multiple Capital Improvement Projects as well as the purchase of capital assets.
- The \$727,839 net decrease of construction work in progress reflects a decrease in the carrying balance of various construction projects in progress that have not been placed into service as of December 31, 2020, in addition to the projects that have been completed and closed out to capital assets.

**COVINGTON WATER DISTRICT**  
Management's Discussion and Analysis (MD&A)  
For the year ended December 31, 2020

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**Long Term Debt**

	<b>Beginning Balance 1/1/2020</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance 12/31/2020</b>	<b>Due in 1 year</b>	<b>Long term portion</b>
Water Revenue Bonds	\$ 5,260,000	\$ ---	\$ (665,000)	\$ 4,595,000	\$ 290,000	\$ 4,305,000
PWTF/DWSRF Loans	14,656,490	---	(1,963,360)	12,693,130	1,590,604	11,102,526
SSP Repayment Agreements	18,431,739	---	(488,311)	17,943,428	503,311	17,440,117
<b>TOTALS</b>	<b>\$ 38,348,229</b>	<b>\$ ---</b>	<b>\$ (3,116,671)</b>	<b>\$ 35,231,558</b>	<b>\$ 2,383,915</b>	<b>\$ 32,847,643</b>

The district is required to establish, maintain and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. Although the bond covenant allows the use of connection charge revenue (i.e. cash capital contributions) in the calculation of debt service coverage, the district has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenues to bond debt service, without consideration of connection charge revenue. The board of commissioners debt coverage ratio, without considering connection charge revenue, was 6.54 for the year ended December 31, 2020. This indicates that the district is not only meeting the requirements mandated by the bond covenant, but also meets the more stringent and conservative internal policy. The less stringent calculation required by the bond covenants with connection charge revenue yields a ratio for the year ended December 31, 2020 of 11.45.

For additional information on long-term debt, see Note 5 in the notes to the financial statements.

## COVINGTON WATER DISTRICT

## Statement of Net Position

December 31, 2020

<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents - undesignated	\$ 34,961,750
Cash and cash equivalents - designated	4,533,764
Accounts receivable - customer	868,741
Accrued unbilled water charges	887,720
Accrued interest receivable	24,362
WD #111 Receivable, current portion	34,291
Restricted current assets:	
Rate Stabilization account	2,000,000
Water Revenue Bond account	351,496
Bond Sinking account	683,581
Accrued interest receivable - restricted	1,939
Developer Deposits	56,458
Inventory	208,043
Prepaid expenses	211,358
TOTAL CURRENT ASSETS	<u>44,823,503</u>
Noncurrent assets:	
Other accounts receivable	67,227
WD #111 Receivable, net of current portion	733,676
Capital assets not being depreciated:	
Land and land rights	1,482,399
Construction work in progress	2,694,945
Capital assets being depreciated:	
Utility Plant	197,494,269
Accumulated depreciation	<u>(58,577,042)</u>
TOTAL NONCURRENT ASSETS	<u>143,895,474</u>
TOTAL ASSETS	<u>\$ 188,718,977</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	\$ 365,660
Deferred outflows related to OPEB	<u>2,250</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 367,910</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 855,401
Accrued compensated absences	352,989
Accrued interest on bonds and loans payable	108,708
Water Revenue Bonds, current portion	290,000
PWTF/DWSRF loans, current portion	1,590,604
SSP repayment agreements, current portion	503,311
OPEB liability, current portion	4,500
Developer deposits	56,458
TOTAL CURRENT LIABILITIES	<u>3,761,971</u>
Noncurrent liabilities:	
Water Revenue Bonds, net of current portion	4,305,000
PWTF/DWSRF loans, net of current portion	11,102,527
SSP repayment agreements, net of current portion	17,440,120
Net Pension Liability	1,156,164
OPEB Liability, net of current portion	<u>1,671,833</u>
TOTAL NONCURRENT LIABILITIES	<u>35,675,644</u>
TOTAL LIABILITIES	<u>\$ 39,437,615</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred gain on refunding	\$ 1,665,740
Deferred inflows related to pensions	<u>396,670</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 2,062,410</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 106,088,561
Restricted	3,037,016
Unrestricted	<u>38,461,285</u>
TOTAL NET POSITION	<u>\$ 147,586,862</u>

## COVINGTON WATER DISTRICT

### Statement of Revenues, Expenses, and Changes in Fund Net Position For the year ended December 31, 2020

**OPERATING REVENUES**

Water service	\$ 14,122,562
Street light revenue	207,678
Other operating revenue	354,153
<b>TOTAL OPERATING REVENUE</b>	<b>14,684,393</b>

**OPERATING EXPENSES**

Total production costs-CWD water	363,728
Total purchased water	768,411
Operations Department	2,080,548
Engineering Department	699,941
Customer Service, Finance, and Information Technology	2,051,026
Administration	1,875,534
Street light expense	164,487
Taxes	711,460
Depreciation expense	4,649,241
<b>TOTAL OPERATING EXPENSES</b>	<b>13,364,376</b>

**OPERATING INCOME (LOSS)**

1,320,017

**NONOPERATING REVENUES (EXPENSES)**

Interest income	542,099
Gain on Investments	(61)
Miscellaneous income	22,541
Gain (Loss) on capital asset disposition	579
Interest expense on debt financing	(882,092)
Amortized debt discounts	(1,271)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(318,205)</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>1,001,812</b>

**Capital contributions:**

Meter installation charges	131,905
Connection charges	3,899,580
Donated capital assets	1,300,208
Federal grants	16,193
<b>Total capital contributions</b>	<b>5,347,886</b>
<b>CHANGE IN NET POSITION</b>	<b>6,349,698</b>

**TOTAL NET POSITION, beginning**

141,237,164

**TOTAL NET POSITION, ending**

\$ 147,586,862

## COVINGTON WATER DISTRICT

### Statement of Cash Flows For the year ended December 31, 2020

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from water customers, net of refunds, etc.	\$ 14,231,049
Receipts from non-water customers	145,913
Payments to suppliers	(2,521,740)
Payments related to employees (non-capitalized)	(5,528,193)
Payments related to business taxes	(711,460)
Other receipts (payments)	22,541
Net cash provided by operating activities	5,638,110
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Receipt of connection charges	4,032,291
Miscellaneous receipts (payments)	61,864
Grant proceeds	16,193
Principal and interest payment on PWTF & DWSRF loans	(2,100,533)
Principal and interest payment on Tacoma loans	(1,231,562)
Principal and interest payment on Water Revenue Bond	(819,923)
Purchase of capital assets (CIP)	727,839
Purchase of capital assets (CAA)	(1,588,285)
Other receipts	(12,687)
Net cash provided (used) by capital and related financing activities	(914,803)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	551,817
Gain on investment pool	(61)
Net cash provided by investing activities	551,756
Net Increase (Decrease) in Cash	5,275,063
Balance, Beginning of Period	37,311,986
Balance, End of Period	\$ 42,587,049
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income (loss)	\$ 1,320,017
Adjustments to reconcile operating income to net cash provided (used) by operating income:	
Depreciation expense	4,649,241
Other nonoperating receipts (payments)	22,541
Change in assets and liabilities:	
Receivables	(244,335)
Inventory	(3,648)
Accrued & prepaid income/expenses	(105,706)
Net cash provided by operating activities	\$ 5,638,110
<b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH CAPITAL AND FINANCING TRANSACTIONS</b>	
Developer contributions to utility plant	\$ 1,300,208

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

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These notes are an integral part of the accompanying financial statements.

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

The accounting policies of Covington Water District (the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

#### Reporting Entity

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

#### Basis of Accounting and Presentation

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

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 a District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water delivery services. The District also recognizes street light revenue and other operating revenue as operating revenue. Operating expenses for the District include the related costs of water services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Unbilled utility service receivables are recorded monthly.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements.

#### Cash and Cash Equivalents

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

#### Capital Assets

See Note 3.

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

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Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses described below.

*Rate Stabilization Account*

The rate stabilization account segregates cash and cash equivalents reserved to prevent occurrence of unexpected revenue shortfalls, thus stabilizing rates regardless of high or low water sales due to fluctuating weather conditions. As consistent with Bond Resolution, the District may transfer funds to the Rate Stabilization account.

*Water Revenue Bond Account*

The Water Revenue Bond account (Bond account) was created by Board Resolution for the purpose of paying and securing bond principal and interest. Payments from revenues of the District are required to be made to the Bond account in annual amounts sufficient to retire serial bonds on or before maturity and to satisfy the bond account requirements for redemption of term bonds scheduled to mature in 2033.

*Bond Sinking Account*

The Bond Sinking account was established and fully funded at an amount of \$683,581 as part of the 2013 bond issue to meet the reserve requirement.

Receivables

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

Loan Draw Receivables

Loan draw receivables consists of receivables for draws on low interest loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund various capital improvement projects.

Inventories

Inventories are valued at average cost which approximates the market value.

Prepaid Expenses

Certain invoices paid to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Examples are: property insurance premiums, annual membership dues and service maintenance agreements.

Deferred Outflows

Deferred outflows consist of deferred losses on refunding that are being amortized over the remaining life of the debt, along with deferred outflows related to pensions.

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

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Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records accrued leave for compensated absences as an expense and liability.

Vacation Leave

Vacation leave, which may be accumulated up to eight weeks (320 hours) is payable upon termination only after the first six months of employment has been completed.

Sick Leave

Regular full-time employees accrue sick leave benefits at the rate of eight hours for each calendar month of continuous employment up to a maximum of 320 hours of sick leave. Sick leave accruals for regular part time staff scheduled to work less than 40 hours per week is prorated. Sick leave accruals for temporary/intern/project/contract status employees will accrue sick leave at the rate of one hour for every 40 hours worked up to the maximum of 320 hours of leave.

There is a quarterly cash out of all sick leave into the HRA VEBA Trust which exceeds the following amounts:

Sick leave balance at end of the quarter:	Quarterly accrual cashed to HRA VEBA:
Balance of 100-199 hours	10% of the quarterly accrual (gross)
Balance of 200-319 hours	25% of the quarterly accrual (gross)
Balance of 320+ hours	100% of the quarterly accrual (gross)

Upon voluntary resignation, a portion of accrued sick leave will be cashed out into the HRA VEBA trust. The amount of leave to be cashed out is based upon the following sliding scale:

Years of cumulative service:	Percent of accrued sick hours:
10 years	25%
15 years	50%
20 years	75%
25 years	100%

Deferred Inflows

Deferred inflows of resources consist of deferred gains on refunding that are being amortized over the remaining life of the debt, along with deferred inflows related to pensions.

Revenues

Service rates are authorized by resolutions passed by the Board of Commissioners. Billings are made to customers on a bi-monthly cyclical basis. Unbilled revenues for water service to customers between the last billing date and the end of the year are estimated on a pro rata basis and accrued at year-end.

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'



## COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2020

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.

### Reclassifications

Certain 2019 account balances may have been reclassified to conform to the 2020 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

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

As allowed by state law, the District and King County entered into a formal interlocal agreement whereas King County Treasurer is the fiscal agent of the District and, as such, receives, disburses and invests funds for the District, at the District's request. All investments are insured, registered or held by the District or by its agent in the District's name.

The District is a participant of the County Treasurer's pooled investment program for the purpose of maximizing earnings on investments and at the same time assuring liquidity and safety. Under this program, available funds of the District are mostly invested in securities, bankers' acceptances, commercial paper, and certificates of deposit. Funds in the pooled investment program can be used for disbursements at any time. As of December 31, 2020 the pool's net asset fair value price per share was \$1.0080.

Designated cash and cash equivalents were made up of the following at December 31:

<b>Designated cash &amp; cash equivalents:</b>	<b>12/31/2020</b>
Asset Replacement	\$ 4,033,764
Emergency Operations	500,000
<b>TOTALS</b>	<b>\$ 4,533,764</b>

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

As of December 31, 2020, the District had the following investments:

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Effective Duration</u></b>
King County Investment Pool	\$42,916,738	1.20 Years

### Impaired Investments

As of December 31, 2020, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in one commercial paper assets that were part of completed enforcement events,

## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is \$19,176 and the District's fair value of these investments is \$11,959.

#### Interest Rate Risk

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

#### Credit Risk

As of December 31, 2020, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSRO's), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

### NOTE 3 CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual costs of more than \$5,000, and an estimated useful life in excess of one year. Major expense 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. Capital assets in service are recorded at cost. Donations by developers are recorded at the contract price.

Capital asset activity for the year ended December 31, 2020 was as follows:

	Beginning Balance 1/1/2020	Increases	Decreases	Ending Balance 12/31/2020
<b>CAPITAL ASSETS, NOT BEING DEPRECIATED:</b>				
Land and land rights	\$ 1,482,399	\$ ---	\$ ---	\$ 1,482,399
Construction in progress	3,422,784	1,404,663	(2,132,502)	2,694,945
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<b>4,905,183</b>	<b>1,404,663</b>	<b>(2,132,502)</b>	<b>4,177,344</b>
<b>CAPITAL ASSETS, BEING DEPRECIATED:</b>				
Utility plant	174,615,635	2,474,877	(1,173)	177,089,339
Buildings and improvements	12,980,277	11,160	---	12,991,437
Equipment	7,017,685	402,809	(7,001)	7,413,493
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>194,613,597</b>	<b>2,888,846</b>	<b>(8,174)</b>	<b>197,494,269</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Utility plant	(41,798,862)	(3,446,409)	821	(45,244,450)
Buildings and improvements	(8,037,872)	(615,808)	---	(8,653,680)
Equipment	(4,098,889)	(587,024)	7,001	(4,678,912)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(53,935,623)</b>	<b>(4,649,241)</b>	<b>7,822</b>	<b>(58,577,042)</b>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<b>140,677,974</b>	<b>(1,760,395)</b>	<b>(352)</b>	<b>138,917,227</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 145,583,157</b>	<b>\$ (355,732)</b>	<b>\$ (2,132,854)</b>	<b>\$ 143,094,571</b>

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

At such time as property is retired and removed from service, the original cost of the property is removed from the capital asset accounts. Accumulated depreciation related to the retired or sold property is charged and the net gain or loss on disposition is credited or charged to income.

During 2020, the District capitalized interest costs for funds borrowed to finance the construction/acquisition of capital assets. The total interest expense incurred by the District during 2020 was \$0. Of this amount, none was included as part of the cost of capital assets under construction.

Preliminary costs incurred for Capital Improvement Projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant accounts and depreciation starts in the subsequent year. Charges related to abandoned projects are expensed. Initial depreciation of other capital assets not related to projects is recorded in the year subsequent to purchase.

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

Asset	Years
Information Technology	3-20
Land Improvements	10-20
Security	5-15
Structures & Improvements	20
Tools, Furniture & Equipment	3-10
Vehicles	5
Utility Plant	10-100

The District has undivided interests in projects with another utility district. Each District was responsible for financing its share of construction. Each District is responsible for its proportionate share of on-going maintenance and operating costs. The following schedule shows the District's portion in each capital asset as included in the Statement of Net Position as of December 31, 2020:

Project	Ownership Interest	Completed Project
<b>Covington Water District and Cedar River Water and Sewer District</b>		
Four million gallon water storage tank, transmission mains, pumps and SCADA	67.2%	\$ 1,781,736
Less: accumulated depreciation		(939,266)
Net book value		<u>\$ 842,470</u>
<b>Covington Water District and Cedar River Water and Sewer District</b>		
West intertie vault, transmission mains and vault	50.0%	\$ 22,266
Less: accumulated depreciation		(10,971)
Net book value		<u>\$ 11,295</u>
<b>Total Project Costs (Net Book Value)</b>		<b><u>\$ 853,765</u></b>

## COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2020

### NOTE 4 CONSTRUCTION WORK-IN-PROGRESS

Construction Work-in-Progress represents expenses to date on projects whose authorizations total \$8,931,057.

Construction Work-in-Progress is composed of the following at December 31, 2020:

	Project Authorization	Expended to 12/31/20	Committed	Required Future Financing
Capital Projects In Process	\$ 8,931,052	\$ 2,694,945	\$ 6,236,107	\$ ---

### NOTE 5 LONG-TERM DEBT

#### Water Revenue Bonds

In 2013 the District issued water revenue bonds that are secured by, and payable solely from the Net Revenues of the District, as defined in the revenue bond agreement. The bonds have a principal amount of \$8,865,000 and interest rates ranging from 2% to 4%, of which, \$2,660,000 was used to refund the District's outstanding 2001 Bonds with interest rates ranging from 4.75% to 5.125%. The remaining \$6,205,000 Revenue Bonds were issued to fund the District's Capital Improvement Projects. The 2013 bond issue resulted in a bond premium of \$331,605 which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the life of the bonds.

This advance refunding was undertaken to reduce total debt service payments over the next eight years by \$337,631 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of \$292,030.

In February 2014, Moody's Investors Service confirmed the Aa3 rating on the District's 2013.

The District has covenants to establish, maintain and collect such rates and charges for water service (and for all other utility services that may be provided by the System) which, together with collections of assessments, are available for the payment of the principal and interest on the bonds and any Future Parity Bonds at an amount equal to at least 1.25 times the average debt service. There are other limitations and restrictions contained in the bond indenture. The District is in compliance with all significant limitations and restrictions including compliance with federal arbitrage requirements.

If any bond is not redeemed when properly presented at its maturity or date fixed for redemption, the District shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the Registered Owner.

Water Revenue Bonds currently outstanding are as follows:

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

Name of Bond Issue	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/20	Amount Issued in 2020	Amount Redeemed in 2020	Ending Outstanding Debt 12/31/20
2013 Bonds	Capital Improvements & Refunding 2001 Water Revenue Bonds / \$8,865,000	2013	2033	2-4%	\$ 5,260,000	\$ ---	(\$665,000)	\$ 4,595,000
	<b>TOTALS</b>				<b>\$ 5,260,000</b>	<b>\$ ---</b>	<b>(\$665,000)</b>	<b>\$ 4,595,000</b>

Water Revenue Bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2021	\$ 290,000	\$ 141,504	\$ 431,504
2022	300,000	133,560	433,560
2023	310,000	124,410	434,410
2024	315,000	113,460	428,460
2025	330,000	100,560	430,560
2026-2030	1,820,000	336,600	2,156,600
2031-2035	1,230,000	59,998	1,289,998
<b>TOTAL</b>	<b>\$ 4,595,000</b>	<b>\$ 1,010,092</b>	<b>\$ 5,605,092</b>

Bond Covenant calculation for the year 2020:

Operating revenues	\$ 14,684,393
Operating expenses*	(9,823,386)
Interest income (excluding restricted funds)	474,819
Miscellaneous income	22,541
Meter installation charges	131,902
Facility charges	3,899,580
<b>Balance available for debt service</b>	<b>\$ 9,389,849</b>
<b>Debt service</b>	<b>\$ 819,923</b>
<b>Debt service ratio (minimum 1.25)</b>	<b>11.45</b>

\*Operating expenses for the purpose of this calculation exclude depreciation and include principal and interest paid on the City of Tacoma loans related to the second supply project.

Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) loans

The District has entered into loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund various capital improvement projects. The loans are secured by, and payable solely from the Net Revenues of the District, as defined in the loan agreements.

Delinquent payments on DWSRF and PWTF loans shall be assessed a monthly penalty beginning the first day past the due date of 1% per month or 12% per annum of the delinquent payment amount. Upon default in the payment of annual installment on a PWTF loan, the entire remaining balance of the loan, together with interest accrued, may be declared immediately due and payable. In that event, the District would be responsible for the payment of all related costs and legal fees incurred as part of the collection process.

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/20	Amount Issued in 2020	Amount Redeemed in 2020	Ending Outstanding Debt 12/31/20
SSP	Capital Improvements / \$7,000,000	2000	2020	1%	\$ 372,757	---	\$ (372,757)	\$ ---
SSP	Capital Improvements / \$10,000,000	2002	2022	0.50%	1,593,750	---	(531,250)	1,062,500
DWSRF-264 <sup>th</sup> Well	Capital Improvements / \$2,322,163	2002	2023	1.50%	580,541	---	(145,135)	435,406
DWSRF-Tank 5 Rechlorination	Capital Improvements / \$548,250	2002	2023	1.50%	137,061	---	(34,266)	102,795
PWTF-Filtration	Capital Improvements / \$10,000,000	2011	2031	0.50%	6,487,252	---	(540,604)	5,946,648
DWSRF-Filtration	Capital Improvements / \$2,020,000	2011	2035	1.50%	1,594,520	---	(99,658)	1,494,862
DWSRF-222 <sup>nd</sup>	Capital Improvements / \$1,100,000	2012	2036	1.50%	944,350	---	(55,550)	888,800
DWSRF-Filtration	Capital Improvements / \$6,060,000	2012	2036	1.50%	2,946,259	---	(184,140)	2,762,119
	<b>TOTALS</b>				<b>\$ 14,656,490</b>	<b>\$ ---</b>	<b>\$ (1,963,360)</b>	<b>\$12,693,130</b>

Annual debt service requirements to maturity for the PWTF/DWSRF loans are as follows:

	Principal	Interest	Total
2021	\$ 1,590,604	\$ 118,973	\$ 1,709,577
2022	1,590,603	105,915	1,696,518
2023	1,059,353	92,857	1,152,210
2024	879,953	82,456	962,409
2025	879,953	74,747	954,700
2026-2030	4,399,765	258,085	4,657,850
2031-2035	2,237,349	81,560	2,318,909
2036-2040	55,550	750	56,300
<b>TOTAL</b>	<b>\$ 12,693,130</b>	<b>\$815,343</b>	<b>\$13,508,473</b>

Tacoma Repayment Agreement loans

Please see Note 9 Regional Water Supply System (RWSS) for a description of the RWSS and Second Supply Project. In the event of default on debt, the project committee may offer the district's partnership share, and therefore its rights and obligations, to the other partners. In addition, the remaining partners may enforce collection of any outstanding obligations at the district's expense.

2002 Second Supply Project Bond Issue

In 2002, the City of Tacoma issued \$82,700,000 of Regional Water Supply System (RWSS) Revenue Bonds for the construction of a portion of the Second Supply Project. The District entered into a repayment agreement with the City in the amount of \$17,822,335 to finance its share of construction costs. The District is obligated to pay debt service on the agreement in an

## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

amount that is consistent with 22.67% of Tacoma’s debt service on the bonds, excluding the capitalized interest, under the terms of the Second Supply Project Agreements. The District’s portion of the debt service related to the Tacoma bond was capitalized while the project was still in construction and has been expensed thereafter. The District’s total project costs of \$46 million were capitalized and are being amortized over the assets useful life.

In 2013, the City of Tacoma refinanced the 2002 RWSS bonds, which resulted in a bond premium. The District’s share of the premium was \$2,416,133, which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the remaining life of the debt.

#### 2010 Second Supply Project Bond Issue

In 2010, the City of Tacoma issued \$44,245,000 of Regional Water Supply System (RWSS) Revenue Bonds to finance a portion of the costs of the Filtration Treatment Project for the Second Supply Project. The 2010 bonds issued are Build America Bonds (BABS) with a 35% government interest subsidy option. The District entered into a repayment agreement with the City of Tacoma in 2010 in the amount of \$11,595,000 to fund a portion of its share of costs related to the project. The federal government budget sequestration cuts reduced the BABS subsidy through the year 2023. Amounts reflected for interest in the table below are net of the 35% government interest subsidy, with a reduction of 7.2% of the 35% subsidy through 2023. Subsequent to the 2010 repayment agreement with the City of Tacoma, the District received additional DWSRF and PUTF low interest loans for use in funding its portion of the Filtration Treatment project. Therefore, the 2010 repayment agreement with the City of Tacoma was amended in 2013 to allocate \$8,080,000 of the District’s bond proceeds back to Tacoma to be used toward their portion of the project funding.

#### 2011 Filtration Loan

In 2010 the City of Tacoma was awarded a \$6,060,000 loan for use in funding the Filtration Treatment project through the Drinking Water State Revolving Fund loan program. The District entered into a repayment agreement with the City of Tacoma in 2011 for an amount up to \$3,030,000 to fund a portion of its share of costs related to the project. The District ended up using \$2,727,000 of this loan. In 2016 the repayment agreement with Tacoma was amended to show the loan allocation to Covington Water District of \$2,727,000.

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/20	Amount Issued in 2020	Amount Redeemed in 2020	Ending Outstanding Debt 12/31/20
City of Tacoma SSP Repayment Agreement	Capital Improvements / \$17,822,335	2002	2032	4%-5%	\$12,860,833	\$ ---	\$(351,250)	\$12,509,583
City of Tacoma SSP Repayment Agreement	Capital Improvements / \$3,515,000	2010	2040	5.62%	3,515,000	---	---	3,515,000
City of Tacoma Filtration Loan	Capital Improvements / \$2,727,000	2011	2034	1.50%	2,055,906	---	(137,061)	1,918,845
	<b>TOTALS</b>				<b>\$18,431,739</b>	<b>\$ ---</b>	<b>\$(488,311)</b>	<b>\$17,943,428</b>

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

Annual debt service requirements to maturity for the SSP Repayment Agreements are as follows:

	Principal	Interest	Total
2021	\$ 503,311	\$ 744,817	\$ 1,248,128
2022	518,727	724,449	1,243,176
2023	590,811	703,309	1,294,120
2024	1,186,645	673,587	1,860,232
2025	1,241,227	619,052	1,860,279
2026-2030	7,081,550	2,181,965	9,263,515
2031-2035	4,506,157	782,141	5,288,298
2036-2040	2,315,000	259,771	2,574,771
<b>TOTAL</b>	<b>\$ 17,943,428</b>	<b>\$ 6,689,091</b>	<b>\$24,632,519</b>

### Changes in Long-Term Liabilities

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

ID No.	Description	Beginning Balance 1/1/20	Additions	Reductions	Ending Balance 12/31/20	Due within one year
252.11	Water Revenue Bonds	\$ 5,260,000	\$ ---	\$ (665,000)	\$ 4,595,000	\$ 290,000
263.82	PWTF/DWSRF Loans	14,656,490	---	(1,963,360)	12,693,130	1,590,604
263.82	SSP Repayment Agreements	18,431,739	---	(488,311)	17,943,428	503,311
	<b>TOTALS</b>	<b>\$38,348,229</b>	<b>\$ ---</b>	<b>\$(3,116,671)</b>	<b>\$35,231,558</b>	<b>\$ 2,383,915</b>

The annual debt service requirements to maturity on all debts outstanding as of December 31, 2020 including interest are as follows:

Year	Principal	Interest	Total
2021	\$ 2,383,915	\$ 1,005,294	\$ 3,389,209
2022	2,409,328	963,924	3,373,252
2023	1,960,166	920,576	2,880,742
2024	2,381,598	869,503	3,251,101
2025	2,451,180	794,359	3,245,539
2026-2030	13,301,315	2,776,650	16,077,965
2031-2035	7,973,506	923,699	8,897,205
2036-2040	2,370,550	260,521	2,631,071
<b>TOTALS</b>	<b>\$ 35,231,558</b>	<b>\$8,514,526</b>	<b>\$43,746,084</b>



## COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2020

### NOTE 6 RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports a restricted component of net position, which is restricted by enabling legislation for the following purposes as of December 31:

	12/31/20
Debt service	\$ 1,035,703
Rate stabilization	2,001,313
<b>TOTAL</b>	<b>\$ 3,037,016</b>

### NOTE 7 PENSION PLAN

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (1,156,164)
Pension assets	-
Deferred outflows of resources	365,660
Deferred inflows of resources	(396,670)
Pension expense/expenditures	(3,966)

#### State Sponsored Pension Plans

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

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

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

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

### Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee*</b>
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	<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%	
Total	<b>12.97%</b>	<b>6.00%</b>

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

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

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

## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

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

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

#### Contributions

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

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

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

The District's actual PERS plan contributions were \$153,283 to PERS Plan 1 and \$253,130 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

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

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assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for each year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivors 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 at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

### Discount Rate

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

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

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## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

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

#### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building block method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

#### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

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

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 983,852	\$ 785,475	\$ 612,469
PERS 2/3	2,306,525	370,689	(1,223,473)

#### 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.

## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

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

At June 30, 2020, the District reported a total pension liability of \$1,156,164 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$785,475
PERS 2/3	370,689

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	.023366%	.022248%	(.001118%)
PERS 2/3	.030169%	.028984%	(.001185%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Non-employer Allocations for all plans except LEOFF 1.

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

#### Pension Expense

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

	Pension Expense
PERS 1	\$ (14,319)
PERS 2/3	10,353
<b>TOTAL</b>	<b>\$ (3,966)</b>

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

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

## COVINGTON WATER DISTRICT

### Notes to the Financial Statements

For the year ended December 31, 2020

Plan Name	Deferred Outflows of Resources			Deferred Inflows of Resources		
	PERS 1	PERS 2/3	Total	PERS 1	PERS 2/3	Total
Differences between expected and actual experience	\$ ---	\$132,701	\$132,701	\$ ---	\$(46,456)	\$(46,456)
Net difference between projected and actual investment earnings on pension plan investments	---	---	---	(4,373)	(18,826)	(23,199)
Changes of assumptions	---	5,280	5,280	---	(253,213)	(253,213)
Changes in proportion and differences between contributions and proportionate share of contributions	---	14,417	14,417	---	(73,802)	(73,802)
Contributions subsequent to the measurement date	80,775	132,487	213,262	---	---	---
<b>TOTAL</b>	<b>\$80,775</b>	<b>\$284,885</b>	<b>\$365,660</b>	<b>\$(4,373)</b>	<b>\$(392,297)</b>	<b>\$(396,670)</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	Total
2021	\$ (19,846)	\$ (166,306)	\$ (186,152)
2022	(624)	(49,259)	(49,833)
2023	6,056	(5,904)	152
2024	10,041	25,699	35,740
2025	---	(21,729)	(21,729)
Thereafter	---	(22,399)	(22,399)

#### **NOTE 8 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington Deferred Compensation Program. The plan is available to eligible employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Deferred Compensation Plan provides for a maximum annual contribution of \$19,500. In addition, participants may be eligible for a catch-up contribution which would increase the maximum to \$26,000. The District employees' total deferred compensation plan contribution for the year 2020 was \$176,088. Total employees' actual deferred contribution since joining the plan is \$1,520,983.

## COVINGTON WATER DISTRICT

Notes to the Financial Statements

For the year ended December 31, 2020

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### **NOTE 9** REGIONAL WATER SUPPLY SYSTEM

The Regional Water Supply System (RWSS) is a partnership formed by Covington Water District, City of Tacoma, City of Kent and Lakehaven Water & Sewer District (the “Participants”) to provide them with additional water supply on a long term basis. The Participants have rights and obligations consistent with the following fractional shares: City of Tacoma – 15/36; City of Kent – 7/36; Covington Water District – 7/36; Lakehaven Water & Sewer District – 7/36 (“Participant Shares”). Each Participant has a right, among others, to receive Second Diversion Water and Storage and each has an obligation to pay its Participant Share of the costs of the Project (“Project Costs”). Project Costs include fixed and variable operation and maintenance costs, initial project construction costs and capital expenditures. The City of Tacoma, consistent with the project agreement, is the owner and operator of the Second Supply Project.

The Regional Water Supply System (RWSS) completed construction of a filtration plant in 2015 as part of the Second Supply Project (SSP) to meet an Environmental Protection Agency mandate. For this project only, the District’s share of cost was only 11.7%, as the City of Tacoma has a higher share of costs for additional usage of the filtration plant.

Information about current debt related to the District’s participation in the RWSS can be found in Note 5 Long-Term Debt.

### **NOTE 10** RISK MANAGEMENT

The District is exposed to various risks including, but not limited to, damage to personal and real property, general liability, automotive liability, theft, public officials’ errors and omissions, and natural disasters. To protect itself against these risks, the 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 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:



**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

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 (D)
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			
D. In 2017 Covington Water District secured property insurance coverage specific to certain underground segments of pipes with a total insurable value of approximately \$3.78M.			

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

## COVINGTON WATER DISTRICT

Notes to the Financial Statements  
For the year ended December 31, 2020

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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.

There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

### **NOTE 11 DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS**

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

<b>Aggregate OPEB Amounts – All Plans</b>	
OPEB liabilities	\$ 1,676,333
Deferred outflows of resources	\$ 2,250
OPEB expenses/expenditures	\$ 467,054

#### OPEB Plan Description

The District is a participating employer in the state of Washington's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides other post-employment benefits (OPEB) through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 37 active plan members and 1 retired plan member as of December 31, 2020. The District payments were \$4,262 to the plan for the year ended December 31, 2020.

#### Assumptions and Other Inputs

The District's total OPEB liability was measured as of June 30, 2020 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Office of the State Actuary.

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
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<b>Methodology</b>	
Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
<b>Assumptions</b>	
Discount Rate*	
Beginning of Measurement Year	3.50%
End of Measurement Year	2.21%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates	Initial rate is approximately 7%, trends down to about 5% in 2020
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%
*Source: Bond Buyer General Obligation 20-Bond Municipal Index	

The source of the discount rate is the Bond Buyer General Obligation 20-Bond Municipal Index. Healthcare trend rate assumptions vary slightly by medical plan. For additional details on the healthcare trend rates, see Office of the State Actuary's 2019 PEGB OBEB Actuarial Valuation Report.

The following presents the total OPEB liability of the district calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) than the current rate.

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	\$1,303,983	\$1,676,333	\$2,182,689

The following presents the total OPEB liability of the district calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$2,089,493	\$1,676,333	\$1,358,156

Changes in the Total OPEB Liability

**COVINGTON WATER DISTRICT**  
Notes to the Financial Statements  
For the year ended December 31, 2020

PEBB	
<b>Total OPEB Liability at 01/01/2020</b>	\$ 1,213,541
Service cost	74,928
Interest	45,022
Changes in Experience Data & Assumptions	347,104
Changes of benefit terms	---
Benefit payments	(4,262)
Other changes	---
<b>Total OPEB Liability at 12/31/2020</b>	<b>\$ 1,676,333</b>

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

Service Cost	\$74,928
Interest Cost	45,022
Changes in Experience Data & Assumptions	347,104
<b>Total OPEB Expense</b>	<b>\$467,054</b>

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$---	\$---
Changes in experience data & assumptions	--	---
Payment subsequent to the measurement date	2,250	---
<b>TOTAL</b>	<b>\$2,250</b>	<b>\$---</b>

Deferred outflows of resources of \$2,250 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2021.

**NOTE 12 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 known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The District is considered an essential service, and as such is operating with increased safety measures in place to continue to provide safe, reliable drinking water to our customers while protecting employee health and safety. The District passed resolutions 4409 and 4410 on March 24, 2020, declaring an emergency relating to the COVID-19 virus, which allows the General Manager and staff to take actions including but not limited to activating the Incident Command System under the District's Emergency Response Plan to develop and implement mitigation measures related to COVID-19.

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

**COVINGTON WATER DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**As of June 30, 2020**  
**Last 10 Fiscal Years\***

<b>Public Employees' Retirement System Plan 1</b>							
		<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.022248%	0.023366%	0.024305%	0.023781%	0.024848%	0.027160%
Employer's proportionate share of the net pension liability	\$	785,475	898,506	1,085,470	1,128,427	1,334,455	1,420,721
Covered payroll	\$	3,248,095	3,286,444	3,229,974	3,004,802	2,965,587	3,027,537
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	24.18%	27.34%	33.61%	37.55%	45.00%	46.93%
Plan fiduciary net position as a percentage of the total pension liability	%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%
<b>Public Employees' Retirement System Plan 2/3</b>							
		<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.028984%	0.030169%	0.031153%	0.030554%	0.031740%	0.033333%
Employer's proportionate share of the net pension liability	\$	370,689	293,044	531,910	1,061,605	1,598,084	1,191,007
Covered payroll	\$	3,248,095	3,286,444	3,227,124	3,002,180	2,962,053	2,960,140
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	11.41%	8.92%	16.48%	35.36%	53.95%	40.23%
Plan fiduciary net position as a percentage of the total pension liability	%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

**Notes to schedule:**

1. Until a full 10-year trend is compiled, governments should present information only for those years for which information is available. GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.
2. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

**COVINGTON WATER DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Employer Contributions**  
**As of December 31, 2020**  
**Last 10 Fiscal Years\***

<b>Public Employees' Retirement System Plan 1</b>							
	2020	2019	2018	2017	2016	2015	
Statutorily or contractually required contributions	\$ 153,283	167,459	164,484	153,948	140,442	130,198	
Contributions in relation to the statutorily or contractually required contributions	\$ (153,283)	(167,459)	(164,484)	(153,948)	(140,442)	(130,198)	
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	
Covered payroll	\$ 3,196,077	3,393,444	3,245,998	3,137,785	2,940,565	2,961,043	
Contributions as a percentage of covered payroll	%	4.80%	4.93%	5.07%	4.91%	4.78%	4.40%
<b>Public Employees' Retirement System Plan 2/3</b>							
	2020	2019	2018	2017	2016	2015	
Statutorily or contractually required contributions	\$ 253,130	261,767	243,519	215,555	183,020	166,612	
Contributions in relation to the statutorily or contractually required contributions	\$ (253,130)	(261,767)	(243,519)	(215,555)	(183,020)	(166,612)	
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	
Covered payroll	\$ 3,196,077	3,393,444	3,244,516	3,135,049	2,937,715	2,956,465	
Contributions as a percentage of covered payroll	%	7.92%	7.71%	7.51%	6.88%	6.23%	5.64%

**Notes to schedule:**

1. Until a full 10-year trend is compiled, governments should present information only for those years for which information is available. GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.
2. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).
3. Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 contributions that fund PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, par .8).

**COVINGTON WATER DISTRICT**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 Schedule of Changes in Total OPEB Liability and Related Ratios  
 Public Employees' Benefit Board (PEBB) Health Insurance Plan  
 For the year ended June 30, 2020  
 Last 10 Fiscal Years\*

	PEBB		
	2020	2019	2018
<b>Total OPEB liability - beginning</b>	\$ 1,213,541	\$ 1,186,689	\$ 1,131,025
Service cost	74,928	78,627	95,966
Interest	45,022	48,876	43,888
Changes in benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes of assumptions	347,104	(95,872)	(82,034)
Benefit payments	(4,262)	(4,779)	(2,156)
Other changes	-	-	-
<b>Total OPEB liability - ending</b>	<b>1,676,333</b>	<b>1,213,541</b>	<b>1,186,689</b>
<b>Covered-employee payroll**</b>	<b>3,579,835</b>	<b>3,453,740</b>	<b>3,229,225</b>
<b>Total OPEB liability as a % of covered payroll</b>	<b>46.83%</b>	<b>35.14%</b>	<b>36.75%</b>

**Notes to Schedule:**

\* Until a full 10-year trend is compiled, only information for those years available is presented.  
 No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

## 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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