



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Valley Water District

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

Published April 11, 2022

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

April 11, 2022

Board of Commissioners
Valley Water District
Puyallup, Washington

Report on Financial Statements

Please find attached our report on the Valley 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

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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*

Valley Water District January 1, 2019 through December 31, 2020

Board of Commissioners
Valley Water District
Puyallup, 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 Valley Water District, as of and for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 1, 2022.

As discussed in Note 12 to the 2020 and 2019 financial statements and Note 13 to the 2019 and 2018 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 12 and Note 13.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

April 1, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Valley Water District January 1, 2019 through December 31, 2020

Board of Commissioners
Valley Water District
Puyallup, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Valley Water District, as of and for the years ended December 31, 2020, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley Water District, as of December 31, 2020, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 12 to the 2020 and 2019 financial statements and Note 13 to the 2019 and 2018 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 12 and Note 13. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The Schedule of Operation and Pumping Expenses and Schedule of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2022 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 fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

April 1, 2022

FINANCIAL SECTION

Valley Water District January 1, 2019 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020 and 2019
Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020 and 2019
Statement of Net Position – 2019 and 2018
Statement of Revenues, Expenses and Changes in Net Position – 2020 and 2019
Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018
Statement of Cash Flows – 2020 and 2019
Statement of Cash Flows – 2019 and 2018
Notes to Financial Statements – 2020 and 2019
Notes to Financial Statements – 2019 and 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 –
2020, 2019 and 2018
Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2020, 2019 and 2018

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

INTRODUCTION

Valley Water District was organized on March 19, 1993 to provide water services to customers residing within the District boundaries. The District currently serves eight noncontiguous service areas in unincorporated, rural, east Pierce County. The mission is to provide safe and reliable water to all of the District's customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2020 and 2019 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statements of net position present total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. These statements provide information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). They provide a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. They present information regarding where cash came from and what it was used for.

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

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

| CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31 | | | |
|--|---------------|---------------|---------------|
| | 2020 | 2019 | 2018 |
| Capital Assets | \$ 19,159,927 | \$ 15,250,768 | \$ 14,621,692 |
| Other Assets | 7,198,798 | 8,560,421 | 6,860,865 |
| Total Assets | 26,358,725 | 23,811,189 | 21,482,557 |
| Deferred Outflows of Resources | 227,933 | 213,586 | 234,776 |
| Long-Term Liabilities | 10,036,879 | 9,338,836 | 10,192,135 |
| Other Liabilities | 1,625,938 | 1,082,893 | 1,014,956 |
| Total Liabilities | 11,662,817 | 10,421,729 | 11,207,091 |
| Deferred Inflows of Resources | 77,855 | 139,827 | 124,598 |
| Net Investment in Capital Assets | 8,274,963 | 6,935,044 | 6,263,834 |
| Restricted Net Position | 403,397 | 403,586 | 394,755 |
| Unrestricted Net Position | 6,167,626 | 6,124,589 | 3,727,055 |
| Total Net Position | \$ 14,845,986 | \$ 13,463,219 | \$ 10,385,644 |

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

| CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31 | | | |
|--|----------------------|----------------------|----------------------|
| | 2020 | 2019 | 2018 |
| OPERATING REVENUES | | | |
| Water Distribution Revenue | \$ 3,323,212 | \$ 3,048,979 | \$ 3,018,038 |
| Other Operating Revenues | 146,161 | 210,315 | 211,191 |
| Total Operating Revenues | 3,469,373 | 3,259,294 | 3,229,229 |
| OPERATING EXPENSES | | | |
| Operation and Pumping Expenses | 1,504,254 | 1,151,456 | 864,568 |
| General and Administrative Expenses | 876,839 | 877,542 | 812,848 |
| Depreciation and Amortization | 547,006 | 545,854 | 526,594 |
| Total Operating Expenses | 2,928,099 | 2,574,852 | 2,204,010 |
| OPERATING INCOME | 541,274 | 684,442 | 1,025,219 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment Income | 47,987 | 142,710 | 106,312 |
| Interest and Amortization on Long-Term Debt | (310,055) | (316,658) | (379,656) |
| Bond Issuance Cost | (28,859) | - | - |
| Loss on Disposal of Assets | - | (4,577) | - |
| Total Nonoperating Revenues (Expenses) | (290,927) | (178,525) | (273,344) |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 250,347 | 505,917 | 751,875 |
| Capital Contributions | 1,132,420 | 2,571,658 | 141,334 |
| CHANGE IN NET POSITION | 1,382,767 | 3,077,575 | 893,209 |
| Net Position - January 1 | 13,463,219 | 10,385,644 | 9,492,435 |
| NET POSITION - DECEMBER 31 | <u>\$ 14,845,986</u> | <u>\$ 13,463,219</u> | <u>\$ 10,385,644</u> |

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

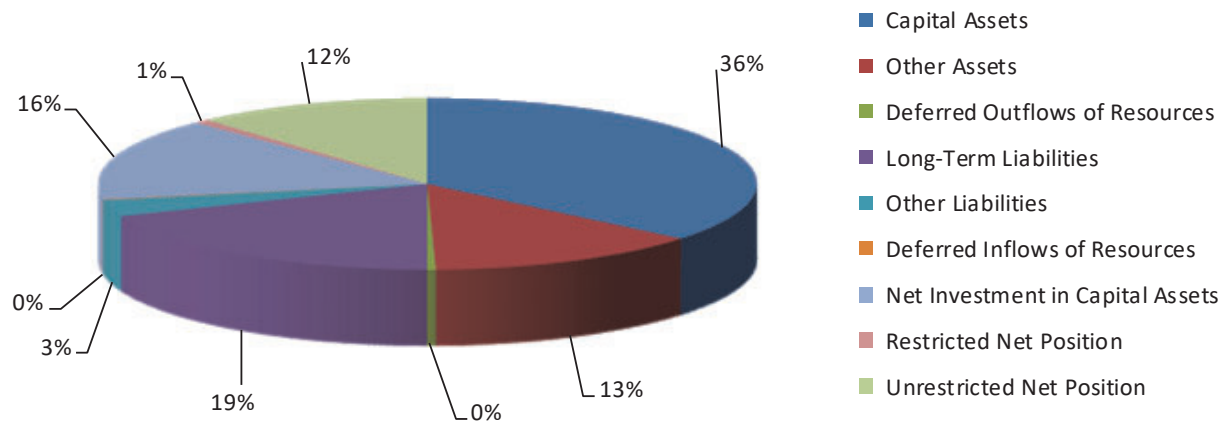
FINANCIAL POSITION

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations.

The District is financed by equity and long-term debt. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2020 and 2019 due to growth in the customer base and construction activity to upgrade the system.

The following charts indicate the components of financial position.

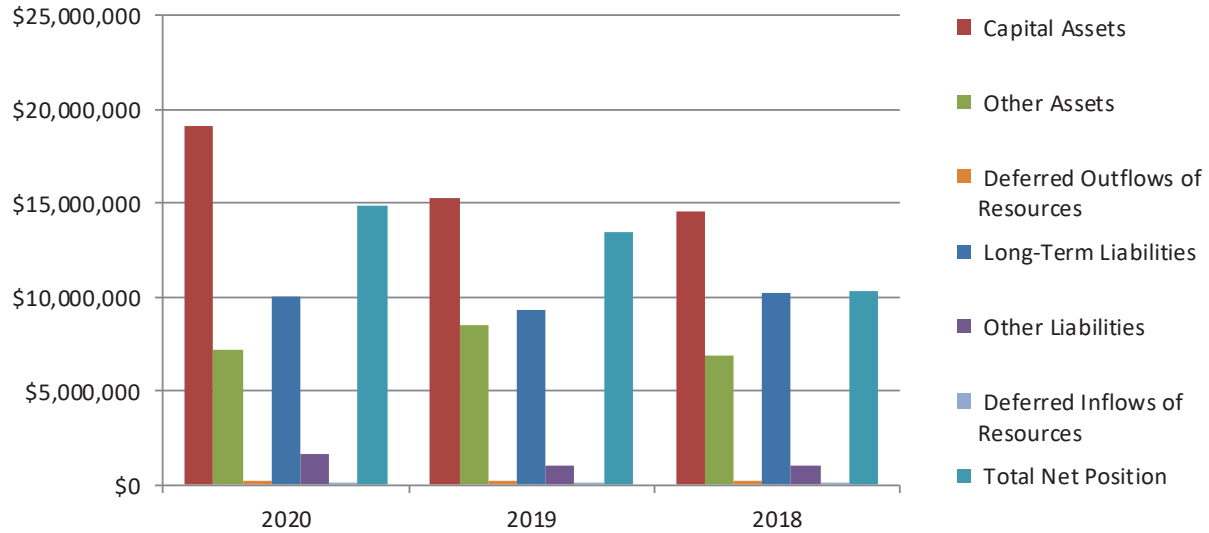
2020 STATEMENT OF NET POSITION



**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

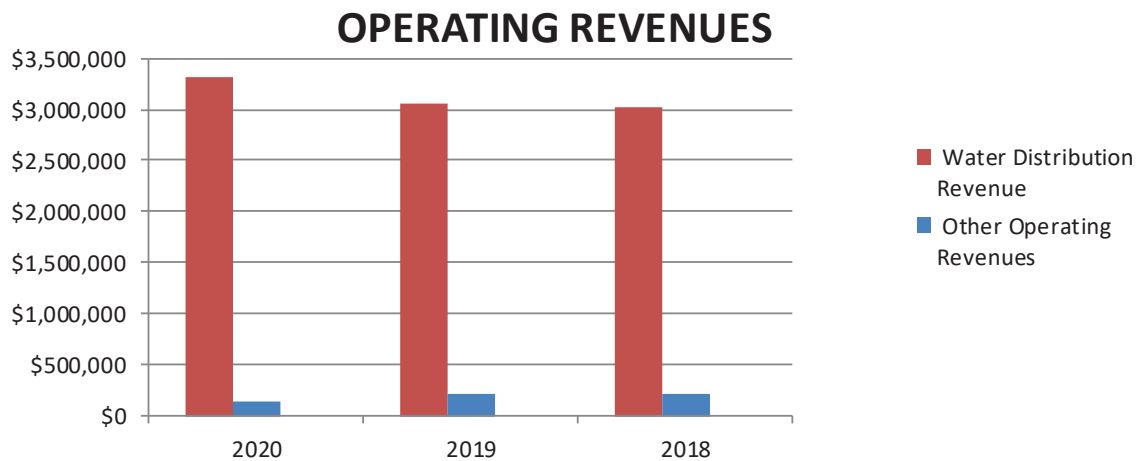
FINANCIAL POSITION (CONTINUED)

COMPARATIVE STATEMENTS OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received from two sources: metered water sales and service charges. The following chart indicates operating revenue over the last three years:



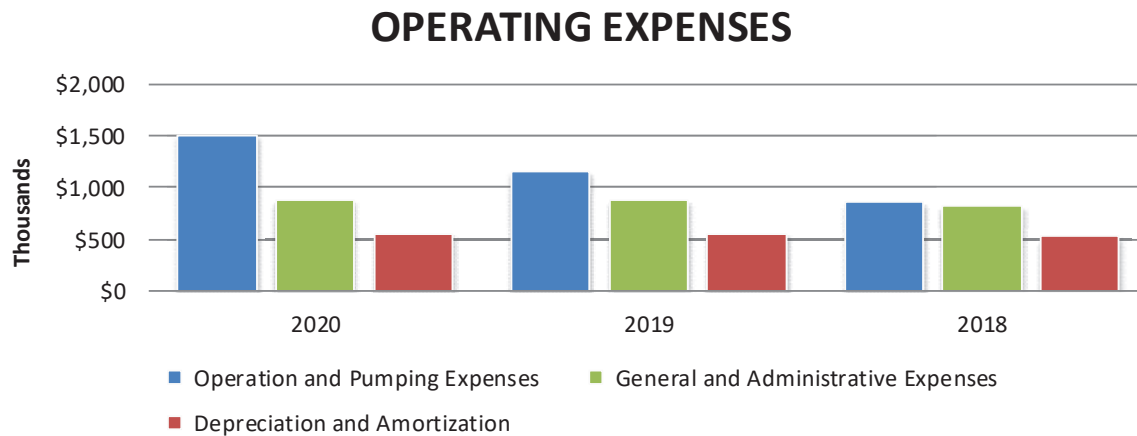
**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

RESULTS OF OPERATIONS (CONTINUED)

Water revenue increased in 2020 primarily due to a rate increase and growth in the customer base. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue in 2019 continues to be high due to high water consumption due to dry and hot weather conditions during those summers.

The District increases rates as necessary to meet revenue requirements to support the ongoing operating, maintenance and capital needs of the system.

The following chart indicates operating expenses over the last three years:

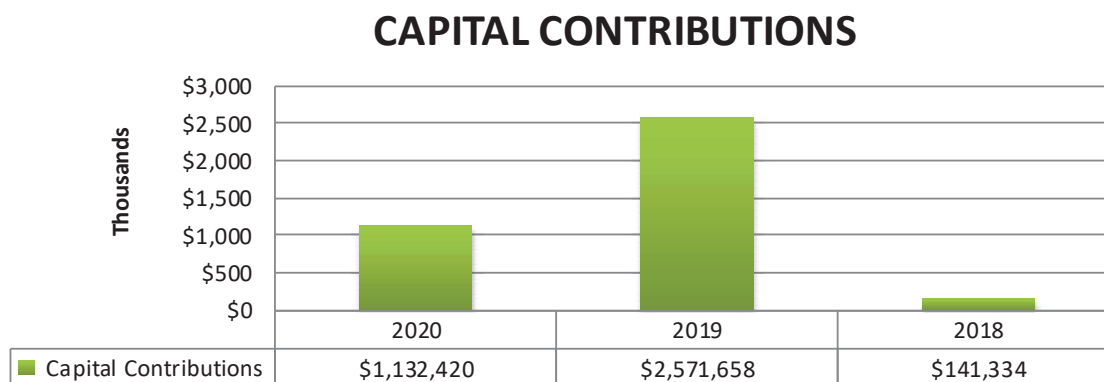


The District has operated at a profit in each of the past three years. The District's philosophy is to provide for all depreciation through rates, based on the principle that current users should pay all costs associated with the water systems as they are being used. The District's operating costs increased in 2020 due to increased personnel costs and repairs and maintenance costs. The District's operating costs increased in 2019 due to increased personnel costs, repairs and maintenance costs, engineering fees, and the comprehensive plan. General and administrative expenses in 2020 were comparable to 2019. General and administrative expenses increased in 2019 primarily due to increases in personnel costs and business taxes. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

CAPITAL CONTRIBUTIONS

The District collects capital contributions from new customers. These contributions consist of connection charges, ULID assessments and donated systems. The following chart indicates capital contributions over the past three years:



The contributions are indicative of the growth of the District and include donated systems totaling \$728,933, \$120,060, and \$0 for the years ended December 31, 2020, 2019, and 2018, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

| 2020 | | 2019 | |
|-------------------------------|--------------|--------------------------|------------|
| Valley Reservoir Project | \$ 2,916,062 | Valley Reservoir Project | \$ 719,259 |
| Sierra System Upgrade | 73,489 | Sierra System Upgrade | 63,186 |
| Telemetry-Buttes | 174,982 | Buttes Generator | 39,514 |
| View Royal VFD | 41,643 | Telemetry-Buttes | 63,648 |
| View Royal Entwistle Intertie | 338,554 | Donated Systems | 120,060 |
| Donated Systems | 728,933 | | |

Long-term liabilities increased in 2020 due to the issuance of long-term debt to finance construction activity and decreased in 2019 due to principal payments made by the District in excess of new borrowings and changes in the net pension liability.

See Notes 4, 5, and 6 in the financial statements for detail activity in capital assets and long-term liabilities.

As of December 31, 2020, the District has \$6,047,221 of unrestricted cash and investments available for operating costs and capital asset acquisition of which \$1,585,718 is committed under existing contracts.

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

INTRODUCTION

Valley Water District was organized on March 19, 1993 to provide water services to customers residing within the District boundaries. The District currently serves eight noncontiguous service areas in unincorporated, rural, east Pierce County. The mission is to provide safe and reliable water to all of the District's customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2019 and 2018 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The statements of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. These statements provide information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). They provide a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

The statements of cash flows report cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. They present information regarding where cash came from and what it was used for.

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

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

| | 2019 | 2018 | 2017 |
|----------------------------------|-----------------------------|-----------------------------|----------------------------|
| Capital Assets | \$ 15,250,768 | \$ 14,621,692 | \$ 14,779,872 |
| Other Assets | 8,560,421 | 6,860,865 | 6,700,405 |
| Total Assets | <u>23,811,189</u> | <u>21,482,557</u> | <u>21,480,277</u> |
| Deferred Outflows of Resources | 213,586 | 234,776 | 106,438 |
| Long-Term Liabilities | 9,338,836 | 10,192,135 | 11,019,495 |
| Other Liabilities | 1,082,893 | 1,014,956 | 1,000,318 |
| Total Liabilities | <u>10,421,729</u> | <u>11,207,091</u> | <u>12,019,813</u> |
| Deferred Inflows of Resources | <u>139,827</u> | <u>124,598</u> | <u>74,467</u> |
| Net Investment in Capital Assets | 6,722,344 | 6,263,834 | 5,817,117 |
| Restricted Net Position | 377,887 | 367,748 | 351,413 |
| Unrestricted Net Position | 6,362,988 | 3,754,062 | 3,323,905 |
| Total Net Position | <u><u>\$ 13,463,219</u></u> | <u><u>\$ 10,385,644</u></u> | <u><u>\$ 9,492,435</u></u> |

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION FOR THE YEAR ENDED DECEMBER 31**

| | 2019 | 2018 | 2017 |
|---|-----------------------------|-----------------------------|----------------------------|
| OPERATING REVENUES | | | |
| Water Distribution Revenue | \$ 3,048,979 | \$ 3,018,038 | \$ 2,981,685 |
| Other Operating Revenues | 210,315 | 211,191 | 166,340 |
| Total Operating Revenues | <u>3,259,294</u> | <u>3,229,229</u> | <u>3,148,025</u> |
| OPERATING EXPENSES | | | |
| Operation and Pumping Expenses | 1,151,456 | 864,568 | 857,875 |
| General and Administrative Expenses | 877,542 | 812,848 | 768,178 |
| Depreciation and Amortization | 545,854 | 526,594 | 521,142 |
| Total Operating Expenses | <u>2,574,852</u> | <u>2,204,010</u> | <u>2,147,195</u> |
| OPERATING INCOME | 684,442 | 1,025,219 | 1,000,830 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment Income | 142,710 | 106,312 | 47,254 |
| Interest and Amortization on Long-Term Debt | (316,658) | (379,656) | (328,872) |
| Loss on Disposal of Assets | (4,577) | - | (25,988) |
| Total Nonoperating Revenues (Expenses) | <u>(178,525)</u> | <u>(273,344)</u> | <u>(307,606)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 505,917 | 751,875 | 693,224 |
| Capital Contributions | <u>2,571,658</u> | <u>141,334</u> | <u>126,492</u> |
| CHANGE IN NET POSITION | 3,077,575 | 893,209 | 819,716 |
| Net Position - January 1 | <u>10,385,644</u> | <u>9,492,435</u> | <u>8,672,719</u> |
| NET POSITION - DECEMBER 31 | <u><u>\$ 13,463,219</u></u> | <u><u>\$ 10,385,644</u></u> | <u><u>\$ 9,492,435</u></u> |

Effective January 1, 2018, the District early implemented Governmental Accounting Standards Board (GASB) Statement No. 89, *Accounting for Interest Cost Incurred before the end of the Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset. This statement is applied on a prospective basis and did not affect prior year results.

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

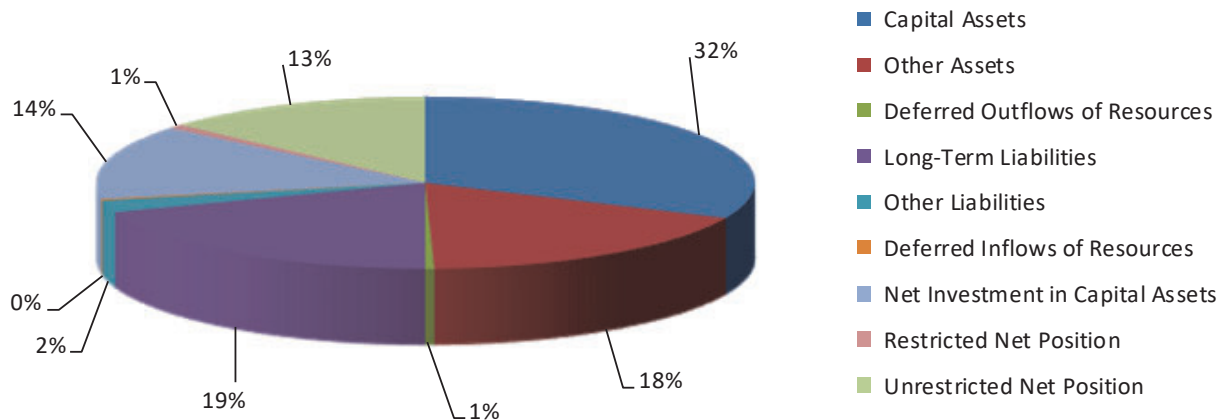
FINANCIAL POSITION

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations.

The District is financed by equity and long-term debt. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2019 due to growth in the customer base and construction activity to upgrade the system. Capital assets decreased in 2018 due to depreciation in excess of growth in the customer base construction activity to upgrade the system.

The following charts indicate the components of financial position.

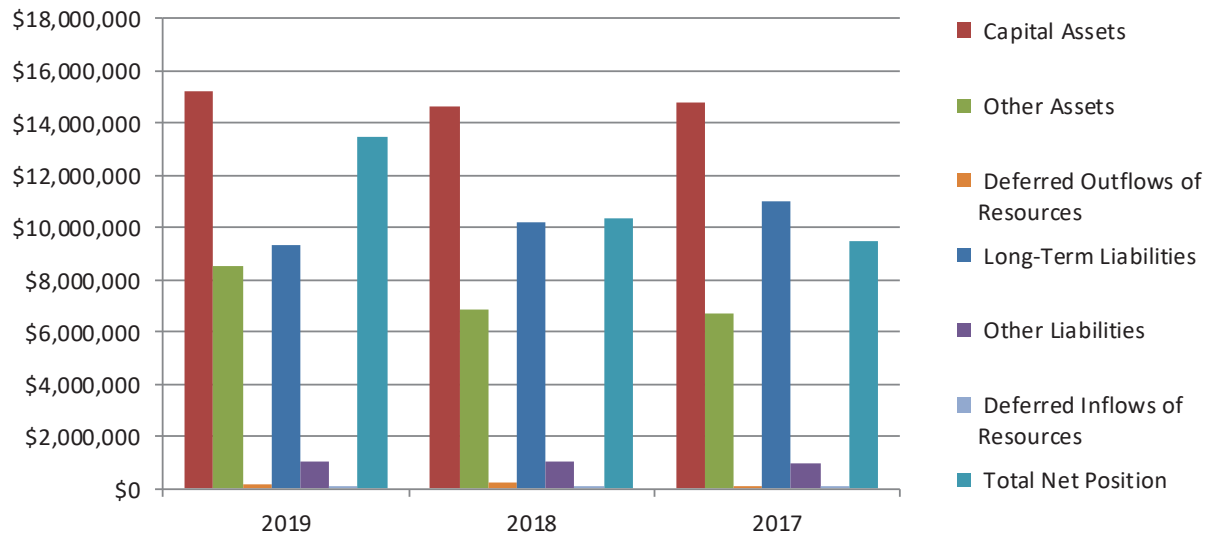
2019 STATEMENT OF NET POSITION



**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

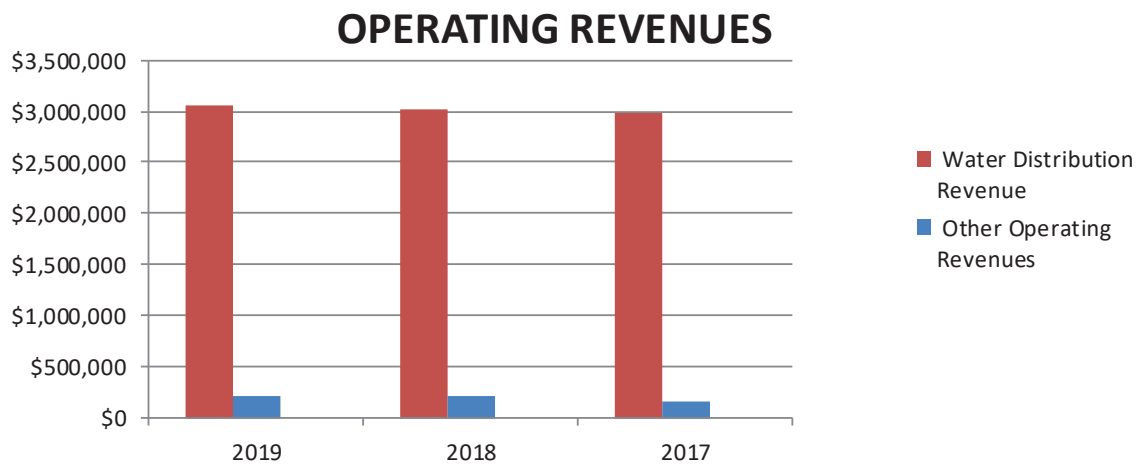
FINANCIAL POSITION (CONTINUED)

COMPARATIVE STATEMENTS OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received from two sources: metered water sales and service charges. The following chart indicates operating revenue over the last three years:



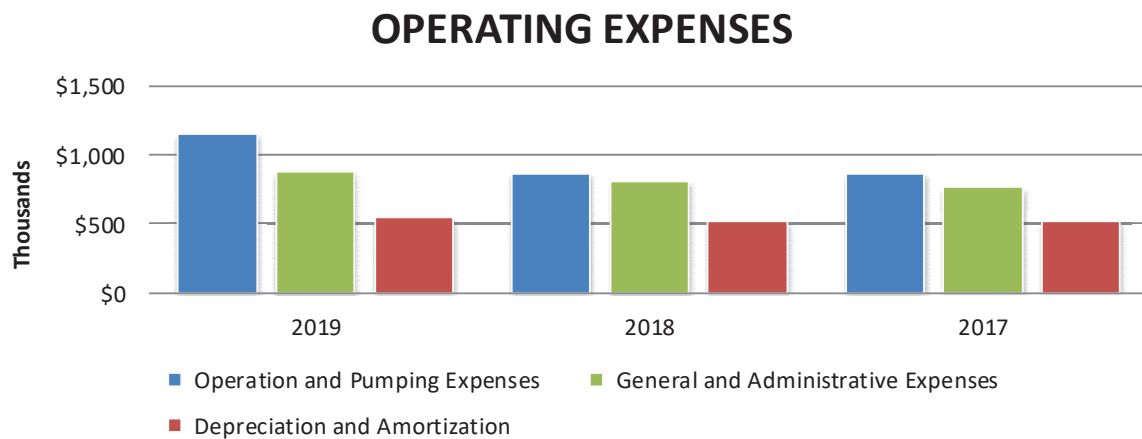
**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

RESULTS OF OPERATIONS (CONTINUED)

Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue in 2019 and 2018 continues to be high due to high water consumption due to dry and hot weather conditions during those summers.

The District increases rates as necessary to meet revenue requirements to support the ongoing operating, maintenance and capital needs of the system.

The following chart indicates operating expenses over the last three years:

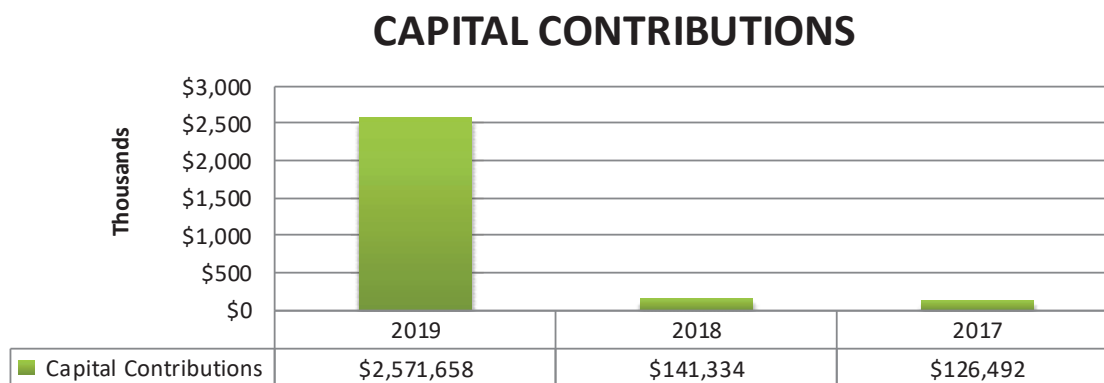


The District has operated at a profit in each of the past three years. The District's philosophy is to provide for all depreciation through rates, based on the principle that current users should pay all costs associated with the water systems as they are being used. The District's operating costs increased in 2019 due to increased personnel costs, repairs and maintenance costs, engineering fees and the comprehensive plan. The District's operating costs increased in 2018 due to higher water purchases as a result of summer weather conditions as discussed above for operating revenue. General and administrative expenses increased in 2019 and 2018 primarily due to increases in personnel costs and business taxes. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

**VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

CAPITAL CONTRIBUTIONS

The District collects capital contributions from new customers. These contributions consist of connection charges, ULID assessments and donated systems. The following chart indicates capital contributions over the past three years:



The contributions are indicative of the growth of the District and include donated systems totaling \$120,060 for the year ended December 31, 2019 and \$-0- for the years ended December 31, 2018 and 2017.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The capital assets of the District have increased due to growth in the customer base and system improvements. Significant capital asset additions included the following:

| 2019 | | 2018 | |
|--------------------------|------------|--------------------------|-----------|
| Valley Reservoir Project | \$ 719,259 | Valley Reservoir Project | \$ 75,393 |
| Sierra System Upgrade | 63,186 | Highland Blvd Water | |
| Buttes Generator | 39,514 | Main Extension | 213,256 |
| Telemetry-Buttes | 63,648 | | |
| Donated Systems | 120,060 | | |

Long-term liabilities decreased in 2019 and 2018 due to principal payments made by the District in excess of new borrowings and changes in the net pension liability.

See Notes 4, 5, 6, and 7 in the financial statements for detail activity in capital assets and long-term liabilities.

As of December 31, 2019, the District has \$6,237,064 of unrestricted cash and investments available for operating costs and capital asset acquisition of which \$152,206 is committed under existing contracts.

As of December 31, 2019, the District has \$1,269,722 of cash and investments restricted for certain construction projects.

**VALLEY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|--|---------------|---------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS | | |
| Unrestricted: | | |
| Cash and Cash Equivalents | \$ 6,047,221 | \$ 6,024,364 |
| Accounts Receivable - Users | 322,954 | 217,763 |
| Accounts Receivable - Developers and Other | 113,174 | 106,055 |
| Accounts Receivable - Unbilled Utility Service | 146,140 | 141,198 |
| Interest Receivable | 1,584 | 1,956 |
| Inventory | 76,097 | 82,152 |
| Prepaid Expenses | 45,611 | 36,168 |
| Lien Notes Receivable, Current Portion | 4,200 | 6,040 |
| Total Unrestricted | 6,756,981 | 6,615,696 |
| Restricted: | | |
| Cash and Cash Equivalents | 403,346 | 1,885,957 |
| Accrued Interest Receivable | 51 | 51 |
| Total Restricted | 403,397 | 1,886,008 |
| Total Current Assets | 7,160,378 | 8,501,704 |
| NONCURRENT ASSETS | | |
| Unrestricted: | | |
| Unamortized Bond Insurance | 9,003 | 10,378 |
| Lien Notes Receivable, Less Current Portion | 29,417 | 48,339 |
| | 38,420 | 58,717 |
| Capital Assets Not Being Depreciated: | | |
| Land | 956,546 | 956,546 |
| Construction in Progress | 4,750,061 | 1,456,068 |
| Capital Assets Being Depreciated: | | |
| Plant in Service | 20,666,869 | 19,571,463 |
| Machinery and Equipment | 1,063,522 | 996,756 |
| Less: Accumulated Depreciation | (8,277,071) | (7,730,065) |
| Net Capital Assets | 19,159,927 | 15,250,768 |
| Total Noncurrent Assets | 19,198,347 | 15,309,485 |
| Total Assets | 26,358,725 | 23,811,189 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Loss on Refunding | 121,634 | 140,751 |
| Deferred Outflows Related to Pensions | 106,299 | 72,835 |
| Total Deferred Outflows of Resources | 227,933 | 213,586 |
| Total Assets and Deferred Outflows of Resources | \$ 26,586,658 | \$ 24,024,775 |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|--|-------------------|-------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Payable from Unrestricted Assets: | | |
| Accounts Payable | \$ 612,571 | \$ 197,243 |
| Accrued Salaries and Benefits | 32,414 | 28,202 |
| Accrued Compensated Absences | 37,374 | 30,195 |
| Retainage Payable | 107,616 | - |
| Developer Deposits | 34,975 | 56,530 |
| Business Taxes Payable | 13,954 | 11,496 |
| Accrued Interest | 30,979 | 30,396 |
| Long-Term Debt - Current Maturities | 756,055 | 728,831 |
| Total Payable from Unrestricted Assets | 1,625,938 | 1,082,893 |
| Total Current Liabilities | 1,625,938 | 1,082,893 |
| NONCURRENT LIABILITIES | | |
| Long-Term Debt, Net of Current Maturities | 9,808,137 | 9,121,406 |
| Net Pension Liability | 228,742 | 217,430 |
| Total Noncurrent Liabilities | 10,036,879 | 9,338,836 |
| Total Liabilities | 11,662,817 | 10,421,729 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows Related to Pensions | 77,855 | 139,827 |
| Total Liabilities and Deferred Inflows of Resources | 11,740,672 | 10,561,556 |
| NET POSITION | | |
| Net Investment in Capital Assets | 8,274,963 | 6,935,044 |
| Restricted for Debt Service | 403,397 | 403,586 |
| Unrestricted | 6,167,626 | 6,124,589 |
| Total Net Position | 14,845,986 | 13,463,219 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 26,586,658 | \$ 24,024,775 |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

| | 2019 | 2018 |
|--|----------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS | | |
| Unrestricted: | | |
| Cash and Cash Equivalents | \$ 6,237,064 | \$ 3,655,901 |
| Accounts Receivable - Users | 217,763 | 218,274 |
| Accounts Receivable - Developers | 106,055 | 114,250 |
| Accounts Receivable - Unbilled Utility Service | 141,198 | 132,456 |
| Interest Receivable | 1,956 | 1,200 |
| Inventory | 82,152 | 74,617 |
| Prepaid Expenses | 36,168 | 31,897 |
| Lien Notes Receivable, Current Portion | 6,040 | 5,245 |
| Total Unrestricted | <u>6,828,396</u> | <u>4,233,840</u> |
| Restricted: | | |
| Cash and Cash Equivalents | 1,673,257 | 2,579,462 |
| Accrued Interest Receivable | 51 | 50 |
| Total Restricted | <u>1,673,308</u> | <u>2,579,512</u> |
| Total Current Assets | 8,501,704 | 6,813,352 |
| NONCURRENT ASSETS | | |
| Unrestricted: | | |
| Unamortized Bond Insurance | 10,378 | 11,856 |
| Lien Notes Receivable, Less Current Portion | 48,339 | 35,657 |
| | <u>58,717</u> | <u>47,513</u> |
| Capital Assets Not Being Depreciated: | | |
| Land | 956,546 | 956,546 |
| Construction in Progress | 1,456,068 | 601,343 |
| Capital Assets Being Depreciated: | | |
| Plant in Service | 19,571,463 | 19,411,889 |
| Machinery and Equipment | 996,756 | 841,627 |
| Intangibles | | 101,578 |
| Less: Accumulated Depreciation | <u>(7,730,065)</u> | <u>(7,291,291)</u> |
| Net Capital Assets | <u>15,250,768</u> | <u>14,621,692</u> |
| Total Noncurrent Assets | <u>15,309,485</u> | <u>14,669,205</u> |
| Total Assets | 23,811,189 | 21,482,557 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Loss on Refunding | 140,751 | 160,261 |
| Deferred Outflows Related to Pensions | 72,835 | 74,515 |
| Total Deferred Outflows of Resources | <u>213,586</u> | <u>234,776</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 24,024,775</u> | <u>\$ 21,717,333</u> |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018**

| | <u>2019</u> | <u>2018</u> |
|---|--------------------------|--------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Payable from Unrestricted Assets: | | |
| Accounts Payable | \$ 197,243 | \$ 112,955 |
| Accrued Salaries and Benefits | 28,202 | 27,773 |
| Accrued Compensated Absences | 30,195 | 32,993 |
| Developer Deposits | 56,530 | 16,283 |
| Business Taxes Payable | 11,496 | 9,591 |
| Accrued Interest | 4,697 | 23,509 |
| Long-Term Debt - Current Maturities | 188,831 | 244,845 |
| Total Payable from Unrestricted Assets | <u>517,194</u> | <u>467,949</u> |
| Payable from Restricted Assets: | | |
| Long-Term Debt - Current Maturities | 540,000 | 520,000 |
| Accrued Interest | 25,699 | 27,007 |
| Total Payable from Restricted Assets | <u>565,699</u> | <u>547,007</u> |
| Total Current Liabilities | 1,082,893 | 1,014,956 |
| NONCURRENT LIABILITIES | | |
| Long-Term Debt Payable from Unrestricted Assets, Net of Current Maturities | 1,205,390 | 1,394,215 |
| Long-Term Bond Payable from Restricted Assets, Net of Current Maturities | 7,916,016 | 8,495,557 |
| Net Pension Liability | 217,430 | 302,363 |
| Total Noncurrent Liabilities | <u>9,338,836</u> | <u>10,192,135</u> |
| Total Liabilities | 10,421,729 | 11,207,091 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Inflows Related to Pensions | <u>139,827</u> | <u>124,598</u> |
| Total Liabilities and Deferred Inflows of Resources | 10,561,556 | 11,331,689 |
| NET POSITION | | |
| Net Investment in Capital Assets | 6,722,344 | 6,263,834 |
| Restricted for Debt Service | 377,887 | 367,748 |
| Unrestricted | 6,362,988 | 3,754,062 |
| Total Net Position | <u>13,463,219</u> | <u>10,385,644</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 24,024,775</u> | <u>\$ 21,717,333</u> |

See accompanying Notes to Financial Statements.

VALLEY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | 2019 |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Water Distribution Revenue | \$ 3,323,212 | \$ 3,048,979 |
| Late Charges | 10,220 | 41,585 |
| Termination Notice Charges | 3,980 | 15,820 |
| Water Availability Letters | 994 | 1,720 |
| Miscellaneous Income | 130,967 | 151,190 |
| Total Operating Revenues | 3,469,373 | 3,259,294 |
| OPERATING EXPENSE | | |
| Operation and Pumping Expenses | 1,504,254 | 1,151,456 |
| General and Administrative Expenses | 876,839 | 877,542 |
| Depreciation and Amortization | 547,006 | 545,854 |
| Total Operating Expenses | 2,928,099 | 2,574,852 |
| OPERATING INCOME | 541,274 | 684,442 |
| NONOPERATING EXPENSES | | |
| Investment Income | 46,035 | 140,604 |
| Interest Income - Lien Notes | 1,952 | 2,106 |
| Interest and Amortization on Long-Term Debt | (310,055) | (316,658) |
| Bond Issue Costs | (28,859) | - |
| Loss on Disposal of Assets | - | (4,577) |
| Total Nonoperating Expenses | (290,927) | (178,525) |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 250,347 | 505,917 |
| CAPITAL CONTRIBUTIONS | 1,132,420 | 2,571,658 |
| CHANGE IN NET POSITION | 1,382,767 | 3,077,575 |
| Net Position - Beginning of Year | 13,463,219 | 10,385,644 |
| NET POSITION - END OF YEAR | <u>\$ 14,845,986</u> | <u>\$ 13,463,219</u> |

See accompanying Notes to Financial Statements.

VALLEY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Water Distribution Revenue | \$ 3,048,979 | \$ 3,018,038 |
| Late Charges | 41,585 | 43,746 |
| Termination Notice Charges | 15,820 | 26,350 |
| Water Availability Letters | 1,720 | 1,760 |
| Miscellaneous Income | 151,190 | 139,335 |
| Total Operating Revenues | <u>3,259,294</u> | <u>3,229,229</u> |
| OPERATING EXPENSE | | |
| Operation and Pumping Expenses | 1,151,456 | 864,568 |
| General and Administrative Expenses | 877,542 | 812,848 |
| Depreciation and Amortization | 545,854 | 526,594 |
| Total Operating Expenses | <u>2,574,852</u> | <u>2,204,010</u> |
| OPERATING INCOME | 684,442 | 1,025,219 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment Income | 140,604 | 104,954 |
| Interest Income - Lien Notes | 2,106 | 1,358 |
| Interest and Amortization on Long-Term Debt | (316,658) | (379,656) |
| Loss on Disposal of Assets | (4,577) | - |
| Total Nonoperating Revenues (Expenses) | <u>(178,525)</u> | <u>(273,344)</u> |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 505,917 | 751,875 |
| Capital Contributions | <u>2,571,658</u> | <u>141,334</u> |
| CHANGE IN NET POSITION | 3,077,575 | 893,209 |
| Net Position - Beginning of Year | <u>10,385,644</u> | <u>9,492,435</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 13,463,219</u></u> | <u><u>\$ 10,385,644</u></u> |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Customers | \$ 3,330,566 | \$ 3,299,505 |
| Cash Paid to Vendors | (1,292,844) | (1,057,407) |
| Cash Paid to and for Employees and Commissioners | (1,098,955) | (1,006,520) |
| Net Cash Provided by Operating Activities | 938,767 | 1,235,578 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Capital Contributions | 388,129 | 2,431,492 |
| Collections on Lien Notes | 36,120 | 6,629 |
| Interest Received on Lien Notes | 2,316 | 1,444 |
| Proceeds from Issuance of Long-Term Debt | 1,481,000 | - |
| Expenditures for Plant in Service and Construction | (3,265,870) | (1,019,046) |
| Payment of Long-Term Debt | (728,826) | (764,839) |
| Bond Issuance Costs | (28,859) | - |
| Interest Paid on Long-Term Debt | (328,574) | (356,809) |
| Net Cash Provided (Used) by Capital Financing Activities | (2,444,564) | 298,871 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received on Investments | 46,043 | 140,509 |
| Net Cash Provided by Investing Activities | 46,043 | 140,509 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,459,754) | 1,674,958 |
| Cash and Cash Equivalents - Beginning of Year | 7,910,321 | 6,235,363 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 6,450,567 | \$ 7,910,321 |
| Cash and Cash Equivalents is Comprised of the Following at December 31: | | |
| Cash and Cash Equivalents - Unrestricted | \$ 6,047,221 | \$ 6,024,364 |
| Cash and Cash Equivalents - Restricted | 403,346 | 1,885,957 |
| Total | \$ 6,450,567 | \$ 7,910,321 |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|-------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET | | |
| CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Income | \$ 541,274 | \$ 684,442 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Depreciation and Amortization | 547,006 | 545,854 |
| Bond Insurance Amortization | 1,375 | 1,478 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | |
| Accounts Receivable | (117,252) | (36) |
| Inventory | 6,055 | (7,535) |
| Prepaid Expenses | (9,443) | (4,271) |
| Deferred Outflows Related to Pensions | (33,464) | 1,680 |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | |
| Accounts Payable and Accrued Expenses | 53,876 | 83,670 |
| Net Pension Liability | 11,312 | (84,933) |
| Deferred Inflows Related to Pensions | (61,972) | 15,229 |
| Net Cash Provided by Operating Activities | <u>\$ 938,767</u> | <u>\$ 1,235,578</u> |
| SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH | | |
| FINANCING AND INVESTING ACTIVITIES | | |
| Lien Notes Assessed | \$ 15,358 | \$ 20,106 |
| Utility Plant Donations Received | <u>\$ 728,933</u> | <u>\$ 120,060</u> |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash Received from Customers | \$ 3,299,505 | \$ 3,241,080 |
| Cash Paid to Vendors | (1,057,407) | (792,792) |
| Cash Paid to and for Employees and Commissioners | (1,006,520) | (902,708) |
| Net Cash Provided by Operating Activities | <u>1,235,578</u> | <u>1,545,580</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Capital Contributions | 2,431,492 | 113,380 |
| Collections on Lien Notes | 6,629 | 4,978 |
| Interest Received on Lien Notes | 1,444 | 902 |
| Expenditures for Plant in Service and Construction | (1,019,046) | (368,123) |
| Repayment of Excess Proceeds Received for Refunded Bonds | - | (185,378) |
| Payment of Long-Term Debt | (764,839) | (732,830) |
| Interest Paid on Long-Term Debt | (356,809) | (351,905) |
| Net Cash Provided (Used) by Capital Financing Activities | <u>298,871</u> | <u>(1,518,976)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Received on Investments | 140,509 | 105,130 |
| Net Cash Provided by Investing Activities | <u>140,509</u> | <u>105,130</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,674,958 | 131,734 |
| Cash and Cash Equivalents - Beginning of Year | <u>6,235,363</u> | <u>6,103,629</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 7,910,321</u></u> | <u><u>\$ 6,235,363</u></u> |
| Cash and Cash Equivalents is Comprised of the Following at December 31: | | |
| Cash and Cash Equivalents - Unrestricted | \$ 6,237,064 | \$ 3,655,901 |
| Cash and Cash Equivalents - Restricted | 1,673,257 | 2,579,462 |
| Total | <u><u>\$ 7,910,321</u></u> | <u><u>\$ 6,235,363</u></u> |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Income | \$ 684,442 | \$ 1,025,219 |
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Depreciation and Amortization | 545,854 | 526,594 |
| Bond Insurance Amortization | 1,478 | 1,756 |
| (Increase) Decrease in Assets and Deferred Outflows of Resources: | | |
| Accounts Receivable | (36) | (4,432) |
| Inventory | (7,535) | (451) |
| Prepaid Expenses | (4,271) | (2,343) |
| Deferred Outflows Related to Pensions | 1,680 | (2,247) |
| Increase (Decrease) in Liabilities and Deferred Inflows of Resources: | | |
| Accounts Payable and Accrued Expenses | 83,670 | 30,061 |
| Net Pension Liability | (84,933) | (78,708) |
| Deferred Inflows Related to Pensions | 15,229 | 50,131 |
| Net Cash Provided by Operating Activities | <u>\$ 1,235,578</u> | <u>\$ 1,545,580</u> |
| SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES | | |
| Lien Notes Assessed | <u>\$ 20,106</u> | <u>\$ 27,954</u> |
| Utility Plant Donations Received | <u>\$ 120,060</u> | <u>\$ -</u> |

See accompanying Notes to Financial Statements.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business, Nature of Operations, and Reporting Entity

Valley Water District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating eight water systems within its boundaries, primarily serving eight noncontiguous service areas in unincorporated, rural, east Pierce County. The District is governed by an elected three-member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Newly Implemented Accounting Standards

The District implemented GASB 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which improves the consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. The implementation of this standard had no impact on the statement of net position or net income and had a minimal impact in the debt related footnotes.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include investments in the State of Washington Treasurer's Local Government Investment Pool (LGIP). Investments in the LGIP are stated at share price which is equal to amortized cost.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectable since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Inventory

Inventory consists of materials and supplies available for future use and is stated at the lower of cost (average) or net realizable value.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost. For water systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's costs, contract price or appraised value. Expenditures for capital assets exceeding \$3,000, including capital leases and major repairs that increase useful lives, are capitalized. Meters are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------|---------------|
| Utility Plant | 5 to 75 Years |
| Machinery and Equipment | 5 to 20 Years |

Accrued Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death. An employee may accrue a maximum of 173 hours of vacation. Upon separation from employment, an employee shall receive pay for 100% of any outstanding accrued vacation at the hourly rate of pay on the date of separation. An employee may accrue a maximum of 288 hours of sick leave. Upon separation from employment after 15 years of continuous employment, an employee shall receive pay for 50% of any accrued sick leave at the hourly rate of pay on the date of separation. After three years of continuous employment, an employee may request in December of any year and receive in December of that year payment for 50% of any accrued sick leave in excess of 288 hours at the hourly rate of pay on December 1 of that year.

Pensions

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management’s discretion.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products and services in connection with the District’s water system. Operating expenses include the costs associated with providing the District’s products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

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

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2020 and 2019 was \$1,220 and \$1,220, respectively. The Districts bank balances as of December 31, 2020 and 2019 were \$785,296 and \$422,092, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. government, U.S. government agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments, which are measured at amortized cost:

| | Fair Value |
|----------------------------------|--------------|
| <u>2020</u> | |
| Local Government Investment Pool | \$ 5,664,051 |
| | |
| <u>2019</u> | |
| Local Government Investment Pool | \$ 7,487,009 |
| | |

Investments in Local Government Investment Pool

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the LGIP. The policy is reviewed annually and proposed changes are reviewed by the LGIP advisory committee.

Investments in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board (GASB) Statement No. 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, reserve, and other requirements. Restricted assets were as follows:

| | | Revenue Bond Reserve Account | Construction Account | Total |
|----------------------------|--|---------------------------------------|-------------------------|---------------------|
| <u>2020</u> | | | | |
| Current Restricted Assets: | | | | |
| Cash and Cash Equivalents | | \$ 403,346 | \$ - | \$ 403,346 |
| Interest Receivable | | 51 | - | 51 |
| Total | | <u>\$ 403,397</u> | <u>\$ -</u> | <u>\$ 403,397</u> |
| <u>2019</u> | | | | |
| Current Restricted Assets: | | | | |
| Cash | | \$ 403,535 | \$ 1,482,422 | \$ 1,885,957 |
| Interest Receivable | | 51 | - | 51 |
| Total | | <u>\$ 403,586</u> | <u>\$ 1,482,422</u> | <u>\$ 1,886,008</u> |

Terms of the revenue bond issues require the District to establish and maintain a reserve account. The reserve account is to provide security for bond holders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service, or 10% of the proceeds of the bonds. The required reserve at December 31, 2020 and 2019, is funded by the bond reserve funds and insurance as allowed by the bond resolutions.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows:

| | 2020 | | | |
|---------------------------------------|----------------------------------|--------------|--------------|----------------------------|
| | Balance, Beginning of Year | Increases | Decreases | Balance, End of Year |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 956,546 | \$ - | \$ - | \$ 956,546 |
| Construction in Progress | 1,456,068 | 3,660,145 | (366,152) | 4,750,061 |
| Total | 2,412,614 | 3,660,145 | (366,152) | 5,706,607 |
| Capital Assets Being Depreciated: | | | | |
| Depreciated: | | | | |
| Utility Plant | 19,571,463 | 1,095,406 | - | 20,666,869 |
| Machinery and Equipment | 996,756 | 66,766 | - | 1,063,522 |
| Intangibles | - | - | - | - |
| Total | 20,568,219 | 1,162,172 | - | 21,730,391 |
| Accumulated Depreciation: | | | | |
| Utility Plant | (7,053,569) | (478,421) | - | (7,531,990) |
| Machinery and Equipment | (676,496) | (68,585) | - | (745,081) |
| Intangibles | - | - | - | - |
| Total | (7,730,065) | (547,006) | - | (8,277,071) |
| Net Capital Assets | \$ 15,250,768 | \$ 4,275,311 | \$ (366,152) | \$ 19,159,927 |
| | | | | |
| | 2019 | | | |
| | Balance, Beginning of Year | Increases | Decreases | Balance, End of Year |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 956,546 | \$ - | \$ - | \$ 956,546 |
| Construction in Progress | 601,343 | 894,239 | (39,514) | 1,456,068 |
| Total | 1,557,889 | 894,239 | (39,514) | 2,412,614 |
| Capital Assets Being Depreciated: | | | | |
| Utility Plant | 19,411,889 | 159,574 | - | 19,571,463 |
| Machinery and Equipment | 841,627 | 165,208 | (10,079) | 996,756 |
| Intangibles | 101,578 | - | (101,578) | - |
| Total | 20,355,094 | 324,782 | (111,657) | 20,568,219 |
| Accumulated Depreciation: | | | | |
| Utility Plant | (6,598,529) | (455,040) | - | (7,053,569) |
| Machinery and Equipment | (595,169) | (90,814) | 9,487 | (676,496) |
| Intangibles | (97,593) | - | 97,593 | - |
| Total | (7,291,291) | (545,854) | 107,080 | (7,730,065) |
| Net Capital Assets | \$ 14,621,692 | \$ 673,167 | \$ (44,091) | \$ 15,250,768 |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 LONG-TERM DEBT

Long-term debt outstanding at December 31 2020 and 2019 consisted of revenue and refunding bonds and direct borrowings and direct placements as follows:

| Description | 2020 | 2019 |
|--|------------------|------------------|
| Revenue and Refunding Bonds: | | |
| \$4,780,000 issued July 5, 2007 for construction and refunding, \$240,000 due serially through the year 2021, \$255,000 term bonds due in 2032, with interest payable semiannually at 4.20 to 4.50 annual percentage rate. | \$ 495,000 | \$ 725,000 |
| \$1,000,000 issued August 16, 2011 for construction and refunding, due serially through the year 2031, with interest payable semiannually at 3.24 to 4.50 annual percentage rate. | 625,000 | 670,000 |
| \$1,620,000 issued December 5, 2012 for construction, due serially through the year 2032, with interest payable semiannually at 2.00 to 3.50 annual percentage rate. | 1,060,000 | 1,135,000 |
| \$5,860,000 issued July 16, 2015 for construction and refunding, due serially through the year 2034, with interest payable semiannually at 3.00 to 4.00 annual percentage rate. | 5,420,000 | 5,610,000 |
| Total Revenue and Refunding Bonds | 7,600,000 | 8,140,000 |
| Direct Borrowings and Direct Placements: | | |
| All issued for utility construction and secured by the revenue of the system. | | |
| Junior Lien Bond to Banner Bank: | | |
| Not to exceed \$3,028,900, 1,481,000 drawn to December 31, 2020, due semiannually through the year 2035, with interest at 2.85 annual percentage rate. | 1,481,000 | - |
| 2001 \$595,000 Public Works Trust Fund Loan: Payable \$31,609 annually through the year 2021, plus interest at .50 annual percentage rate. | 31,609 | 63,219 |
| 2002 \$275,400 Drinking Water State Revolving Fund Loan: Payable \$15,239 annually through the year 2023, plus interest at 1.5 annual percentage rate. | 45,654 | 60,871 |
| 2004 \$1,220,600 Public Works Trust Fund Loan: Payable \$72,454 annually through the year 2024, plus interest at .50 annual percentage rate. | 289,815 | 362,269 |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 LONG-TERM DEBT (CONTINUED)

| Description | 2020 | 2019 |
|--|--------------|--------------|
| 2003 \$256,873 Drinking Water State Revolving Fund Loan: Payable \$13,515 annually through the year 2024, plus interest at 1.5 annual percentage rate. | \$ 54,121 | \$ 67,651 |
| 2013 \$1,107,970 Drinking Water State Revolving Fund Loan: Payable \$56,014 annually through the year 2034, plus interest at 1.5 annual percentage rate. | 784,197 | 840,211 |
| Total Direct Borrowings and Direct Placements | 2,686,396 | 1,394,221 |
| Total Long-Term Debt | 10,286,396 | 9,534,221 |
| Less: Current Maturities | (756,055) | (728,831) |
| Unamortized Bond (Discounts) Premiums | 277,796 | 316,016 |
| Total | \$ 9,808,137 | \$ 9,121,406 |

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2020):

| | Revenue and Refunding | | Direct Placements and | | |
|--------------------------|-----------------------|-------------|-----------------------|------------|--------------|
| | Bonds | | Direct Borrowings | | |
| Year Ending December 31, | Principal | Interest | Principal | Interest | Total |
| 2021 | \$ 555,000 | \$ 290,085 | \$ 201,055 | \$ 57,075 | \$ 1,103,215 |
| 2022 | 495,000 | 271,125 | 243,962 | 54,321 | 1,064,408 |
| 2023 | 510,000 | 256,525 | 246,350 | 50,198 | 1,063,073 |
| 2024 | 525,000 | 240,325 | 233,852 | 46,003 | 1,045,180 |
| 2025 | 540,000 | 219,725 | 150,432 | 41,963 | 952,120 |
| 2026-2030 | 3,060,000 | 760,550 | 794,257 | 154,982 | 4,769,789 |
| 2031-2035 | 1,915,000 | 162,750 | 816,488 | 55,817 | 2,950,055 |
| Total | \$ 7,600,000 | \$2,201,085 | \$2,686,396 | \$ 460,359 | \$12,947,840 |
| | | | | | |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Amounts Due Within One Year |
|--|----------------------------------|---------------------|---------------------|----------------------------|-----------------------------------|
| 2020 | | | | | |
| Public Works Trust Fund Loans | \$ 425,488 | \$ - | \$ (104,064) | \$ 321,424 | \$ 104,063 |
| Drinking Water State Revolving Fund Loans | 968,733 | - | (84,761) | 883,972 | 84,768 |
| Revenue Bonds | 8,140,000 | - | (540,000) | 7,600,000 | 555,000 |
| Junior Lien Bond to Banner Bank | - | 1,481,000 | - | 1,481,000 | 12,224 |
| Bond Premium | 316,016 | - | (38,220) | 277,796 | - |
| Compensated Absences | 30,195 | 70,885 | (63,706) | 37,374 | 37,374 |
| Net Pension Liability | 217,430 | 11,312 | - | 228,742 | - |
| Total | \$ 10,097,862 | \$ 1,563,197 | \$ (830,751) | \$ 10,830,308 | \$ 793,429 |
| 2019 | | | | | |
| Public Works Trust Fund Loans | \$ 529,551 | \$ - | \$ (104,063) | \$ 425,488 | \$ 104,063 |
| Drinking Water State Revolving Fund Loans | 1,109,509 | - | (140,776) | 968,733 | 84,768 |
| Revenue and Refunding Bonds | 8,660,000 | - | (520,000) | 8,140,000 | 540,000 |
| Bond Premium | 355,557 | - | (39,541) | 316,016 | - |
| Compensated Absences | 32,993 | 66,535 | (69,333) | 30,195 | 30,195 |
| Net Pension Liability | 302,363 | - | (84,933) | 217,430 | - |
| Total | \$ 10,989,973 | \$ 66,535 | \$ (958,646) | \$ 10,097,862 | \$ 759,026 |

NOTE 7 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2020 and 2019:

| Aggregate Pension Amounts – All Plans | | | |
|---------------------------------------|------------|--|------------|
| | 2020 | | 2019 |
| Net Pension Liabilities | \$ 228,742 | | \$ 217,430 |
| Deferred Outflows of Resources | 106,299 | | 72,835 |
| Deferred Inflows of Resources | 77,855 | | 139,827 |
| Pension Expense | 21,444 | | 11,381 |

State Sponsored Pension Plans

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

State Sponsored Pension Plans (Continued)

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
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov

Public Employees Retirement System (PERS)

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

PERS Plan 1 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 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 nonduty 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 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions – The PERS Plan 1 member contribution rate is established by state statute at 6%. 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%. 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) were as follows:

| <u>PERS Plan 1 Actual Contribution Rates</u> | <u>Employer</u> | <u>Employee</u> |
|--|-----------------|-----------------|
| <u>2020</u> | | |
| January through August | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | - |
| Administrative Fee | 0.18% | - |
| Total | 12.86% | 6.00% |
| September through December | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.87% | - |
| Administrative Fee | 0.18% | - |
| Total | 12.97% | 6.00% |
| <u>2019</u> | | |
| January through June | | |
| PERS Plan 1 | 7.52% | 6.00% |
| PERS Plan 1 UAAL | 5.13% | - |
| Administrative Fee | 0.18% | - |
| Total | 12.83% | 6.00% |
| July through December | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | - |
| Administrative Fee | 0.18% | - |
| Total | 12.86% | 6.00% |

The District's actual contributions to the plan were \$40,196 and \$30,970 for the years ended December 31, 2020 and 2019, respectively.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 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 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

| <u>PERS Plan 2/3 Actual Contribution Rates</u> | <u>Employer 2/3</u> | <u>Employee 2</u> | <u>Employee 3</u> |
|--|---------------------|-------------------|-------------------|
| <u>2020</u> | | | |
| January through August | | | |
| PERS Plan 2/3 | 7.92% | 7.90% | Varies |
| PERS Plan 1 UAAL | 4.76% | - | |
| Administrative Fee | 0.18% | - | |
| Total | 12.86% | 7.90% | Varies |
| September through December | | | |
| PERS Plan 2/3 | 7.92% | 7.90% | Varies |
| PERS Plan 1 UAAL | 4.87% | - | |
| Administrative Fee | 0.18% | - | |
| Total | 12.97% | 7.90% | Varies |
| <u>2019</u> | | | |
| January through June | | | |
| PERS Plan 2/3 | 7.52% | 7.41% | Varies |
| PERS Plan 1 UAAL | 5.13% | - | |
| Administrative Fee | 0.18% | - | |
| Total | 12.83% | 7.41% | Varies |
| July through December | | | |
| PERS Plan 2/3 | 7.92% | 7.90% | Varies |
| PERS Plan 1 UAAL | 4.76% | - | |
| Administrative Fee | 0.18% | - | |
| Total | 12.86% | 7.90% | Varies |

The District's actual contributions to the plan were \$65,372 and \$48,435 for the years ended December 31, 2020 and 2019, respectively.

Actuarial Assumptions

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

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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

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

2020 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 of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

2019 Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions between the 2020 and 2019 valuations.

- 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.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

- 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 for more information on this method change.

There were changes in methods and assumptions between the 2019 and 2018 valuations.

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

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% 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% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Estimated Rates of Return by Asset Class (Continued)

As of June 30, 2020 and 2019:

| | | Percent Long-Term Expected Real Rate of Return Arithmetic |
|--------------------|------------------------------|---|
| <u>Asset Class</u> | <u>Target Allocation</u> | |
| 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 |
| Total | 100 % | |

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

| | 1% Decrease (6.4%) | Discount Rate (7.4%) | 1% Increase (8.4%) |
|-------------|-----------------------|-------------------------|-----------------------|
| <u>2020</u> | | | |
| PERS 1 | \$ 194,353 | \$ 155,165 | \$ 120,989 |
| PERS 2/3 | 457,817 | 73,577 | (242,844) |
| <u>2019</u> | | | |
| PERS 1 | \$ 205,343 | \$ 163,971 | \$ 128,074 |
| PERS 2/3 | 410,010 | 53,459 | (239,115) |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2020 and 2019, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2020 and 2019):

| | Liability (Asset) | |
|----------|-------------------|-------------------|
| | 2020 | 2019 |
| PERS 1 | \$ 155,165 | \$ 163,971 |
| PERS 2/3 | 73,577 | 53,459 |
| Total | <u>\$ 228,742</u> | <u>\$ 217,430</u> |

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 | 0.004264% | 0.004395% | 0.000131% |
| PERS 2/3 | 0.005504% | 0.005753% | 0.000249% |
| | | | |
| | Proportionate Share 6/30/18 | Proportionate Share 6/30/19 | Change in Proportion |
| PERS 1 | 0.004546% | 0.004264% | -0.000282% |
| PERS 2/3 | 0.005817% | 0.005504% | -0.000313% |

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

The 2020 and 2019 collective net pension liability (asset) was measured as of June 30, 2020 and 2019, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019 and 2018, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Pension Expense

For the years ended December 31, 2020 and 2019, the District recognized pension expense as follows:

| | 2020 | 2019 |
|----------|------------------|------------------|
| PERS 1 | \$ 12,957 | \$ (5,606) |
| PERS 2/3 | 8,487 | 16,987 |
| Total | <u>\$ 21,444</u> | <u>\$ 11,381</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| <u>2020</u> | | |
| PERS 1: | | |
| Differences Between Expected and Actual Experience | \$ - | \$ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 864 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 23,681 | - |
| Total PERS 1 | <u>\$ 23,681</u> | <u>\$ 864</u> |
| PERS 2/3: | | |
| Differences Between Expected and Actual Experience | \$ 26,340 | \$ 9,221 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 3,738 |
| Changes of Assumptions | 1,048 | 50,260 |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 17,335 | 13,772 |
| Contributions Subsequent to the Measurement Date | 37,895 | - |
| Total PERS 2/3 | <u>\$ 82,618</u> | <u>\$ 76,991</u> |
| Total All Plans | <u>\$ 106,299</u> | <u>\$ 77,855</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| <u>2019</u> | | |
| PERS 1: | | |
| Differences Between Expected and Actual Experience | \$ - | \$ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 10,955 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 15,338 | - |
| Total PERS 1 | <u>\$ 15,338</u> | <u>\$ 10,955</u> |
| PERS 2/3: | | |
| Differences Between Expected and Actual Experience | \$ 15,316 | \$ 11,493 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 77,815 |
| Changes of Assumptions | 1,369 | 22,430 |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 15,292 | 17,134 |
| Contributions Subsequent to the Measurement Date | 25,520 | - |
| Total PERS 2/3 | <u>\$ 57,497</u> | <u>\$ 128,872</u> |
| Total All Plans | <u>\$ 72,835</u> | <u>\$ 139,827</u> |

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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | PERS 1 | PERS 2/3 |
|---------------------------------|-----------------|--------------------|
| 2021 | \$ (3,920) | \$ (30,187) |
| 2022 | (123) | (6,954) |
| 2023 | 1,196 | 1,651 |
| 2024 | 1,983 | 8,272 |
| 2025 | - | (2,685) |
| Thereafter | - | (2,365) |
| Total | <u>\$ (864)</u> | <u>\$ (32,268)</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the Washington Department of Retirement Services (DRS) and is available to all District employees, which allows a deferral of a portion of their taxable wages until future years. The plan was established to replace the participation of employees in the Social Security System. Accordingly, the District will match employee deferrals up to 6.2% of income. A distribution from the deferred compensation plan to an employee is allowed at termination of employment, retirement, death, or under certain emergencies. The District does not administer or manage the deferred compensation plan, but instead all amounts are the property of the employee. Employee deferrals totaled \$40,252 and \$32,825 in 2020 and 2019, respectively. District matching contributions totaled \$34,702 and \$29,300 in 2020 and 2019, respectively.

NOTE 9 RISK MANAGEMENT

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 through October 31.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability; Cyber Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program, and bonds of various types. Most coverages are on an "occurrence" basis.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 RISK MANAGEMENT (CONTINUED)

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

| Type of Coverage | Member Deductible | Self-Insured Retention/Group | Excess Limits |
|---------------------------------------|--|---|---|
| Property Loss: | | | |
| Buildings and Contents | \$10,000 and See (C) below | \$25,000 | \$275,000,000 |
| Flood | See (A) below | See (A) below | \$50,000,000 |
| Earthquake | See (B) below | See (B) below | \$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau) |
| Terrorism | \$10,000 | \$25,000 Primary layer | \$700,000,000 Primary layer |
| Boiler and Machinery | \$10,000 - \$350,000 depending on object | \$25,000 - \$350,000 depending on object | \$100,000,000 |
| Auto - Physical Damage | \$10,000 | \$25,000 | Replacement Value Coverage |
| Liability: | | | |
| Commercial General Liability | \$10,000 | \$300,000, subject to \$150,000 Corridor Deductible | \$15,000,000 |
| Auto Liability | \$10,000 | Same as above | \$15,000,000 |
| Public Officials Errors and Omissions | \$10,000 | Same as above | \$15,000,000 |
| Employment Practices | \$10,000 | Same as above | \$15,000,000 |
| Other: | | | |
| Cyber Liability | \$50,000 | N/A | \$2,000,000 |
| Deadly Weapon/ Active Shooter | \$10,000 | N/A | \$500,000 |
| Public Officials Bonds | Various | N/A | Various |
| Crime | \$10,000 | \$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 \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight-hour waiting period.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 RISK MANAGEMENT (CONTINUED)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2021, written notice must be in possession of the Pool by April 30, 2021). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a board of directors, which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's executive director.

In the past three years (2020, 2019, and 2018), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 10 HEALTH AND WELFARE

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 HEALTH AND WELFARE (CONTINUED)

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and noncity entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2020, 262 cities/towns/noncity entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members.

In April 2020, the board of trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, the AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members.

The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the board of trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 HEALTH AND WELFARE (CONTINUED)

Participating employers' contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of six months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the board of trustees or its delegates. The board of trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from trust member cities or towns. The trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options, and benefits in compliance with Chapter 48.62 RCW. The board of trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

In the past three years (2020, 2019, and 2018), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

NOTE 11 COMMITMENTS

As of December 31, 2020, the District is obligated under a construction contract totaling \$3,989,880 of which \$2,404,162 has been expended.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 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.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business, Nature of Operations, and Reporting Entity

Valley Water District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating six water systems within its boundaries, primarily serving eight noncontiguous service areas in unincorporated, rural, east Pierce County. The District is governed by an elected three-member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include investments in the State of Washington Treasurer's Local Government Investment Pool (LGIP). Investments in the LGIP are stated at share price which is equal to amortized cost.

Inventory

Inventory consists of materials and supplies available for future use and is stated at the lower of cost (average) or net realizable value.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectable since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Capital Assets

Capital assets are stated at cost. For water systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's costs, contract price or appraised value. Expenditures for capital assets exceeding \$1,000, including capital leases and major repairs that increase useful lives, are capitalized. Meters are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

| | |
|-------------------------|---------------|
| Utility Plant | 5 to 75 Years |
| Machinery and Equipment | 5 to 20 Years |
| Intangibles | 5 to 25 Years |

Accrued Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death. An employee may accrue a maximum of 173 hours of vacation. Upon separation from employment, an employee shall receive pay for 100% of any outstanding accrued vacation at the hourly rate of pay on the date of separation. An employee may accrue a maximum of 288 hours of sick leave. Upon separation from employment after 15 years of continuous employment, an employee shall receive pay for 50% of any accrued sick leave at the hourly rate of pay on the date of separation. After three years of continuous employment, an employee may request in December of any year and receive in December of that year payment for 50% of any accrued sick leave in excess of 288 hours at the hourly rate of pay on December 1 of that year.

Pensions

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management’s discretion.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products and services in connection with the District’s water system. Operating expenses include the costs associated with providing the District’s products and services, general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2019 and 2018 was \$1,220 and \$1,120, respectively. The District's bank balances as of December 31, 2019 and 2018 were \$422,092 and \$314,243, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As required by state law, all investments of the District's funds are obligations of the U.S. government, U.S. government agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

As of December 31, the District had the following investments, which are measured at amortized cost:

| | <u>Fair Value</u> |
|----------------------------------|-------------------|
| <u>2019</u> | |
| Local Government Investment Pool | \$ 7,487,009 |
| <u>2018</u> | |
| Local Government Investment Pool | \$ 5,920,000 |

Investments in Local Government Investment Pool

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the LGIP. The policy is reviewed annually and proposed changes are reviewed by the LGIP advisory committee.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Local Government Investment Pool (Continued)

Investments in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board (GASB) Statement No. 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

NOTE 3 RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, reserve and other requirements. Restricted assets were as follows:

| | Revenue Bond Reserve Account | Construction Account | Total |
|----------------------------|---------------------------------------|-------------------------|---------------------|
| <u>2019</u> | | | |
| Current Restricted Assets: | | | |
| Cash and Cash Equivalents | \$ 403,535 | \$ 1,269,722 | \$ 1,673,257 |
| Interest Receivable | 51 | - | 51 |
| Total | <u>\$ 403,586</u> | <u>\$ 1,269,722</u> | <u>\$ 1,673,308</u> |
| <u>2018</u> | | | |
| Current Restricted Assets: | | | |
| Cash | \$ 394,705 | \$ 2,184,757 | \$ 2,579,462 |
| Interest Receivable | 50 | - | 50 |
| Total | <u>\$ 394,755</u> | <u>\$ 2,184,757</u> | <u>\$ 2,579,512</u> |

Terms of the revenue bond issues require the District to establish and maintain a reserve account. The reserve account is to provide security for bond holders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service, or 10% of the proceeds of the bonds. The required reserve at December 31, 2019 and 2018, is funded by the bond reserve funds and insurance as allowed by the bond resolutions.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows:

| | 2019 | | | Balance, End of Year |
|---------------------------------------|----------------------------------|------------|--------------|----------------------------|
| | Balance, Beginning of Year | Increases | Decreases | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 956,546 | \$ - | \$ - | \$ 956,546 |
| Construction in Progress | 601,343 | 894,239 | (39,514) | 1,456,068 |
| Total | 1,557,889 | 894,239 | (39,514) | 2,412,614 |
| Capital Assets Being Depreciated: | | | | |
| Depreciated: | | | | |
| Utility Plant | 19,411,889 | 159,574 | - | 19,571,463 |
| Machinery and Equipment | 841,627 | 165,208 | (10,079) | 996,756 |
| Intangibles | 101,578 | - | (101,578) | - |
| Total | 20,355,094 | 324,782 | (111,657) | 20,568,219 |
| Accumulated Depreciation: | | | | |
| Utility Plant | (6,598,529) | (455,040) | - | (7,053,569) |
| Machinery and Equipment | (595,169) | (90,814) | 9,487 | (676,496) |
| Intangibles | (97,593) | - | 97,593 | - |
| Total | (7,291,291) | (545,854) | 107,080 | (7,730,065) |
| Net Capital Assets | \$ 14,621,692 | \$ 673,167 | \$ (44,091) | \$ 15,250,768 |
| | | | | |
| | 2018 | | | Balance, End of Year |
| | Balance, Beginning of Year | Increases | Decreases | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 956,546 | \$ - | \$ - | \$ 956,546 |
| Construction in Progress | 562,661 | 308,039 | (269,357) | 601,343 |
| Total | 1,519,207 | 308,039 | (269,357) | 1,557,889 |
| Capital Assets Being Depreciated: | | | | |
| Utility Plant | 19,138,749 | 273,140 | - | 19,411,889 |
| Machinery and Equipment | 785,035 | 56,592 | - | 841,627 |
| Intangibles | 101,578 | - | - | 101,578 |
| Total | 20,025,362 | 329,732 | - | 20,355,094 |
| Accumulated Depreciation: | | | | |
| Utility Plant | (6,118,803) | (479,726) | - | (6,598,529) |
| Machinery and Equipment | (548,558) | (46,611) | - | (595,169) |
| Intangibles | (97,336) | (257) | - | (97,593) |
| Total | (6,764,697) | (526,594) | - | (7,291,291) |
| Net Capital Assets | \$ 14,779,872 | \$ 111,177 | \$ (269,357) | \$ 14,621,692 |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 LONG-TERM DEBT PAYABLE FROM UNRESTRICTED ASSETS

Long-term debt outstanding, payable from unrestricted assets, consisted of the following loans, secured by revenue of the system, issued for utility construction:

| <u>Description</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| 2001 \$595,000 Public Works Trust Fund Loan: Payable \$31,609 annually through the year 2021, plus interest at .50 annual percentage rate. | \$ 63,219 | \$ 94,828 |
| 2002 \$275,400 Drinking Water State Revolving Fund Loan: Payable \$15,239 annually through the year 2023, plus interest at 1.5 annual percentage rate. | 60,871 | 76,089 |
| 2004 \$1,220,600 Public Works Trust Fund Loan: Payable \$72,454 annually through the year 2024, plus interest at .50 annual percentage rate. | 362,269 | 434,723 |
| 2003 \$256,873 Drinking Water State Revolving Fund Loan: Payable \$13,515 annually through the year 2024, plus interest at 1.5 annual percentage rate. | 67,651 | 81,181 |
| 2013 \$1,107,970 Drinking Water State Revolving Fund Loan: Payable \$56,014 annually through the year 2034, plus interest at 1.5 annual percentage rate. | 840,211 | 952,239 |
| Total | 1,394,221 | 1,639,060 |
| Less: Current Maturities | (188,831) | (244,845) |
| Total | <u>\$ 1,205,390</u> | <u>\$ 1,394,215</u> |

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows (based on draws received through December 31, 2019):

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|---------------------|
| 2020 | \$ 188,831 | \$ 16,659 | \$ 205,490 |
| 2021 | 188,831 | 14,867 | 203,698 |
| 2022 | 157,222 | 13,075 | 170,297 |
| 2023 | 157,116 | 11,441 | 168,557 |
| 2024 | 142,081 | 9,807 | 151,888 |
| 2025-2029 | 280,070 | 33,608 | 313,678 |
| 2030-2034 | 280,070 | 12,603 | 292,673 |
| Total | <u>\$ 1,394,221</u> | <u>\$ 112,060</u> | <u>\$ 1,506,281</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 LONG-TERM DEBT PAYABLE FROM RESTRICTED ASSETS

Long-term debt outstanding, payable from restricted assets, consisted of the following:

| <u>Description</u> | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Revenue Bonds: | | |
| \$4,780,000 issued July 5, 2007 for construction and refunding, \$690,000 due serially through the year 2021, \$255,000 term bonds due in 2032, with interest payable semi-annually at 4.20 to 4.50 annual percentage rate. | \$ 725,000 | \$ 945,000 |
| \$1,000,000 issued August 16, 2011 for construction and refunding, due serially through the year 2031, with interest payable semi-annually at 3.20 to 4.50 annual percentage rate. | 670,000 | 715,000 |
| \$1,620,000 issued December 5, 2012 for construction, due serially through the year 2032, with interest payable semi-annually at 2.00 to 3.50 annual percentage rate. | 1,135,000 | 1,205,000 |
| \$5,860,000 issued July 16, 2015 for construction and refunding, due serially through the year 2034, with interest payable semi-annually at 3.00 to 4.00 annual percentage rate. | 5,610,000 | 5,795,000 |
| Total | 8,140,000 | 8,660,000 |
| Less: Current Maturities | (540,000) | (520,000) |
| Unamortized Bond (Discounts) Premiums | 316,016 | 355,557 |
| Total | <u>\$ 7,916,016</u> | <u>\$ 8,495,557</u> |

Long-term debt service requirements to maturity, payable by the District from restricted assets, are as follows:

| <u>Year Ending December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|---------------------|----------------------|
| 2020 | \$ 540,000 | \$ 308,385 | \$ 848,385 |
| 2021 | 555,000 | 290,085 | 845,085 |
| 2022 | 495,000 | 271,125 | 766,125 |
| 2023 | 510,000 | 256,525 | 766,525 |
| 2024 | 525,000 | 240,325 | 765,325 |
| 2025-2029 | 2,940,000 | 876,850 | 3,816,850 |
| 2030-2034 | 2,575,000 | 266,175 | 2,841,175 |
| Total | <u>\$ 8,140,000</u> | <u>\$ 2,509,470</u> | <u>\$ 10,649,470</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Amounts Due Within One Year |
|--|----------------------------------|------------------|---------------------|----------------------------|-----------------------------------|
| <u>2019</u> | | | | | |
| Public Works Trust Fund Loans | \$ 529,551 | \$ - | \$ (104,063) | \$ 425,488 | \$ 104,063 |
| Drinking Water State Revolving Fund Loans | 1,109,509 | - | (140,776) | 968,733 | 84,768 |
| Revenue Bonds | 8,660,000 | - | (520,000) | 8,140,000 | 540,000 |
| Bond Premium | 355,557 | - | (39,541) | 316,016 | - |
| Compensated Absences | 32,993 | 66,535 | (69,333) | 30,195 | 30,195 |
| Net Pension Liability | 302,363 | - | (84,933) | 217,430 | - |
| Total | <u>\$ 10,989,973</u> | <u>\$ 66,535</u> | <u>\$ (958,646)</u> | <u>\$ 10,097,862</u> | <u>\$ 759,026</u> |
| <u>2018</u> | | | | | |
| Public Works Trust Fund Loans | \$ 633,614 | \$ - | \$ (104,063) | \$ 529,551 | \$ 104,063 |
| Drinking Water State Revolving Fund Loans | 1,138,276 | - | (28,767) | 1,109,509 | 140,782 |
| Revenue Bonds | 9,260,000 | - | (600,000) | 8,660,000 | 520,000 |
| Bond Premium | 395,365 | - | (39,808) | 355,557 | - |
| Compensated Absences | 32,226 | 65,687 | (64,920) | 32,993 | 32,993 |
| Net Pension Liability | 381,071 | - | (78,708) | 302,363 | - |
| Total | <u>\$ 11,840,552</u> | <u>\$ 65,687</u> | <u>\$ (916,266)</u> | <u>\$ 10,989,973</u> | <u>\$ 797,838</u> |

NOTE 8 PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2019 and 2018:

| Aggregate Pension Amounts – All Plans | | |
|---------------------------------------|------------|------------|
| | 2019 | 2018 |
| Net Pension Liabilities | \$ 217,430 | \$ 302,363 |
| Deferred Outflows of Resources | 72,835 | 74,515 |
| Deferred Inflows of Resources | 139,827 | 124,598 |
| Pension Expense | 11,381 | 41,775 |

State Sponsored Pension Plans

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

State Sponsored Pension Plans (Continued)

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
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov

Public Employees Retirement System (PERS)

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

PERS Plan 1 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 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 nonduty 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 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions – The PERS Plan 1 member contribution rate is established by state statute at 6%. 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%. 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) were as follows:

| <u>PERS Plan 1 Actual Contribution Rates</u> | <u>Employer</u> | <u>Employee</u> |
|--|-----------------|-----------------|
| <u>2019</u> | | |
| January through June | | |
| PERS Plan 1 | 7.52% | 6.00% |
| PERS Plan 1 UAAL | 5.13% | |
| Administrative Fee | 0.18% | |
| Total | <u>12.83%</u> | <u>6.00%</u> |
| July through December | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | |
| Administrative Fee | 0.18% | |
| Total | <u>12.86%</u> | <u>6.00%</u> |
| <u>2018</u> | | |
| January through August | | |
| PERS Plan 1 | 7.49% | 6.00% |
| PERS Plan 1 UAAL | 5.03% | |
| Administrative Fee | 0.18% | |
| Total | <u>12.70%</u> | <u>6.00%</u> |
| September through December | | |
| PERS Plan 1 | 7.52% | 6.00% |
| PERS Plan 1 UAAL | 5.13% | |
| Administrative Fee | 0.18% | |
| Total | <u>12.83%</u> | <u>6.00%</u> |

The District's actual contributions to the plan were \$30,970 and \$29,254 for the years ended December 31, 2019 and 2018, respectively.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least 5 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 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) were as follows:

| <u>PERS Plan 2/3 Actual Contribution Rates</u> | <u>Employer 2/3</u> | <u>Employee 2</u> | <u>Employee 3</u> |
|--|---------------------|-------------------|-------------------|
| <u>2019</u> | | | |
| January through June | | | |
| PERS Plan 2/3 | 7.52% | 7.41% | Varies |
| PERS Plan 1 UAAL | 5.13% | | |
| Administrative Fee | 0.18% | | |
| Total | <u>12.83%</u> | <u>7.41%</u> | <u>Varies</u> |
| July through December | | | |
| PERS Plan 2/3 | 7.92% | 7.90% | Varies |
| PERS Plan 1 UAAL | 4.76% | | |
| Administrative Fee | 0.18% | | |
| Total | <u>12.86%</u> | <u>7.90%</u> | <u>Varies</u> |
| <u>2018</u> | | | |
| January through August | | | |
| PERS Plan 2/3 | 7.49% | 7.38% | Varies |
| PERS Plan 1 UAAL | 5.03% | | |
| Administrative Fee | 0.18% | | |
| Total | <u>12.70%</u> | <u>7.38%</u> | <u>Varies</u> |
| September through December | | | |
| PERS Plan 2/3 | 7.52% | 7.41% | Varies |
| PERS Plan 1 UAAL | 5.13% | | |
| Administrative Fee | 0.18% | | |
| Total | <u>12.83%</u> | <u>7.41%</u> | <u>Varies</u> |

The District's actual contributions to the plan were \$48,435 and \$43,345 for the years ended December 31, 2019 and 2018, respectively.

Actuarial Assumptions

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

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional 2019 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. Additional 2018 assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019 and June 30, 2018. 2019 Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, and 2018 Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions between the 2019 and 2018 valuations.

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

There were changes in methods and assumptions between the 2018 and 2017 valuations.

- Lowered the valuation interest rate from 7.70% to 7.50% for all plans.
- Lowered the assumed general salary growth from 3.75% to 3.50% for all plans.
- Lowered assumed inflation from 3.00% to 2.75% for all plans.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% 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% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Estimated Rates of Return by Asset Class (Continued)

As of June 30, 2019 and 2018:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Percent Long-Term Expected Real Rate of Return Arithmetic</u> |
|--------------------|------------------------------|--|
| <u>2019</u> | | |
| 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 |
| Total | <u>100 %</u> | |
| <u>2018</u> | | |
| Fixed Income | 20 % | 1.70 % |
| Tangible Assets | 7 | 4.90 |
| Real Estate | 18 | 5.80 |
| Global Equity | 32 | 6.30 |
| Private Equity | 23 | 9.30 |
| Total | <u>100 %</u> | |

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

| | <u>1% Decrease (6.4%)</u> | <u>Discount Rate (7.4%)</u> | <u>1% Increase (8.4%)</u> |
|-------------|-------------------------------|---------------------------------|-------------------------------|
| <u>2019</u> | | | |
| PERS 1 | \$ 205,343 | \$ 163,971 | \$ 128,074 |
| PERS 2/3 | 410,010 | 53,459 | (239,115) |
| <u>2018</u> | | | |
| PERS 1 | \$ 249,522 | \$ 203,038 | \$ 162,775 |
| PERS 2/3 | 454,314 | 99,325 | (191,727) |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

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

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

At December 31, 2019 and 2018, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2019 and 2018):

| | Liability (Asset) | |
|----------|-------------------|-------------------|
| | 2019 | 2018 |
| PERS 1 | \$ 163,971 | \$ 203,038 |
| PERS 2/3 | 53,459 | 99,325 |
| Total | <u>\$ 217,430</u> | <u>\$ 302,363</u> |

The District's proportionate share of the collective net pension liabilities was as follows:

| | Proportionate Share 6/30/18 | Proportionate Share 6/30/19 | Change in Proportion |
|----------|--------------------------------|--------------------------------|-------------------------|
| PERS 1 | 0.004546% | 0.004264% | -0.000282% |
| PERS 2/3 | 0.005817% | 0.005504% | -0.000313% |

| | Proportionate Share 6/30/17 | Proportionate Share 6/30/18 | Change in Proportion |
|----------|--------------------------------|--------------------------------|-------------------------|
| PERS 1 | 0.004136% | 0.004546% | 0.000410% |
| PERS 2/3 | 0.005320% | 0.005817% | 0.000497% |

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

The 2019 and 2018 collective net pension liability (asset) was measured as of June 30, 2019 and 2018, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018 and 2017, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Pension Expense

For the years ended December 31, 2019 and 2018, the District recognized pension expense as follows:

| | 2019 | 2018 |
|----------|------------------|------------------|
| PERS 1 | \$ (5,606) | \$ 35,944 |
| PERS 2/3 | 16,987 | 5,831 |
| Total | <u>\$ 11,381</u> | <u>\$ 41,775</u> |

Deferred Outflows of Resources and Deferred Inflows of Resources

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| <u>2019</u> | | |
| PERS 1: | | |
| Differences Between Expected and Actual Experience | \$ - | \$ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 10,955 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 15,338 | - |
| Total PERS 1 | <u>\$ 15,338</u> | <u>\$ 10,955</u> |
| PERS 2/3: | | |
| Differences Between Expected and Actual Experience | \$ 15,316 | \$ 11,493 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 77,815 |
| Changes of Assumptions | 1,369 | 22,430 |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 15,292 | 17,134 |
| Contributions Subsequent to the Measurement Date | 25,520 | - |
| Total PERS 2/3 | <u>\$ 57,497</u> | <u>\$ 128,872</u> |
| Total All Plans | <u>\$ 72,835</u> | <u>\$ 139,827</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| <u>2018</u> | | |
| PERS 1: | | |
| Differences Between Expected and Actual Experience | \$ - | \$ - |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 8,069 |
| Changes of Assumptions | - | - |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | - | - |
| Contributions Subsequent to the Measurement Date | 14,944 | - |
| Total PERS 1 | <u>\$ 14,944</u> | <u>\$ 8,069</u> |
| PERS 2/3: | | |
| Differences Between Expected and Actual Experience | \$ 12,175 | \$ 17,390 |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | - | 60,950 |
| Changes of Assumptions | 1,161 | 28,267 |
| Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions | 24,199 | 9,922 |
| Contributions Subsequent to the Measurement Date | 22,036 | - |
| Total PERS 2/3 | <u>\$ 59,571</u> | <u>\$ 116,529</u> |
| Total All Plans | <u>\$ 74,515</u> | <u>\$ 124,598</u> |

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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending December 31,</u> | PERS 1 | PERS 2/3 |
|---------------------------------|--------------------|--------------------|
| 2020 | \$ (2,418) | \$ (23,684) |
| 2021 | (5,728) | (40,506) |
| 2022 | (2,044) | (18,281) |
| 2023 | (765) | (10,046) |
| 2024 | - | (3,658) |
| Thereafter | - | (720) |
| Total | <u>\$ (10,955)</u> | <u>\$ (96,895)</u> |

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the Washington Department of Retirement Services (DRS) and is available to all District employees, which allows a deferral of a portion of their taxable wages until future years. The plan was established to replace the participation of employees in the Social Security System. Accordingly, the District will match employee deferrals up to 6.2% of income. A distribution from the deferred compensation plan to an employee is allowed at termination of employment, retirement, death, or under certain emergencies. The District does not administer or manage the deferred compensation plan, but instead all amounts are the property of the employee. Employee deferrals totaled \$32,825 and \$31,232 in 2019 and 2018, respectively. District matching contributions totaled \$29,300 and \$28,659 in 2019 and 2018, respectively.

NOTE 10 RISK MANAGEMENT

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 1st through October 31st.

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

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

| Type of Coverage | Member Deductible | Self-Insured Retention/Group | Excess Limits |
|---------------------------------------|--|---|---|
| Property Loss: | | | |
| Buildings and Contents | \$10,000 and See (C) below | \$25,000 | \$275,000,000 |
| Flood | See (A) below | See (A) below | \$50,000,000 |
| Earthquake | See (B) below | See (B) below | \$110,000,000 (\$75,000,000 shared by all members and \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau and \$5,000,000 dedicated to Cascade Water Alliance) |
| Terrorism | \$10,000 | \$25,000 Primary layer | \$700,000,000 Primary layer |
| Boiler and Machinery | \$10,000 - \$350,000 depending on object | \$25,000 - \$350,000 depending on object | \$100,000,000 |
| Auto - Physical Damage | \$10,000 | \$25,000 | \$15,000,000 |
| Liability: | | | |
| Commercial General Liability | \$10,000 | \$200,000, subject to \$150,000 Corridor Deductible | \$15,000,000 |
| Auto Liability | \$10,000 | Same as above | \$15,000,000 |
| Public Officials Errors and Omissions | \$10,000 | Same as above | \$15,000,000 |
| Employment Practices | \$10,000 | Same as above | \$15,000,000 |
| Other: | | | |
| Cyber Liability | \$50,000 | N/A | \$2,000,000 |
| Deadly Weapon/ Active Shooter | \$10,000 | N/A | \$500,000 |
| Public Officials Bonds | Various | N/A | Various |
| Crime | \$10,000 | \$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 \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight-hour waiting period.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

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

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

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.

In the past three years (2019, 2018, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 11 HEALTH AND WELFARE

The District is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 HEALTH AND WELFARE (CONTINUED)

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and noncity entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2019, 261 cities/towns/noncity entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the board of trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of six months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 11 HEALTH AND WELFARE (CONTINUED)

The operations of the Health Care Program are managed by the board of trustees or its delegates. The board of trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options, and benefits in compliance with Chapter 48.62 RCW. The board of trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (GASB). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

In the past three years (2019, 2018, and 2017), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by stop loss contracts.

NOTE 12 COMMITMENTS

As of December 31, 2019, the District is obligated under a construction contract totaling \$215,834 of which \$63,648 has been expended.

NOTE 13 SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Specific to the District, COVID 19 may impact various parts of its 2020 operations and financial results, including slower collections of receivables and reductions in operating revenues and capital contributions. Management believes the District is taking appropriate actions to mitigate the negative impact. However, the length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

**VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 13 SUBSEQUENT EVENTS (CONTINUED)

On April 21, 2020, the District issued a not to exceed \$3,028,900 Junior Lien Water Revenue Bond to provide funding for the Valley Reservoir and Pump Station projects. The bond bears interest at 2.85%. The District may request draws on the bond until June 1, 2021. On December 1, 2020 and June 1, 2021, the District shall pay all accrued interest to date on the bond. On December 1, 2021, the District shall make a payment of \$25,000, or more, if by mutual agreement of the bondholder, plus all accrued interest. Beginning on June 1, 2022 and continuing on June 1 and December 1 thereafter until full payment has been made, the District shall make roughly equal combined principal and interest payments in an amount necessary to amortize the outstanding principal balance of the bond as of December 2, 2021 by the maturity date of December 31, 2035.

VALLEY WATER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2020
LAST 10 FISCAL YEARS*

| PERS 1 | | | | | |
|---|-------------------|-------------------|------------|-------------------|-------------------|
| | | Employer's | | Net Pension | Plan Fiduciary |
| | Employer's | Proportionate | | Liability (Asset) | Net Position as |
| | Proportion of | Share of the | Employer's | as a Percentage | a Percentage |
| | the Net Pension | Net Pension | Covered | of Covered | of the Total |
| Year | Liability (Asset) | Liability (Asset) | Payroll | Payroll | Pension Liability |
| 2020 | 0.004395% | \$ 155,165 | \$ 669,166 | 23.19% | 68.64% |
| 2019 | 0.004264% | 163,971 | 598,190 | 27.41% | 67.12% |
| 2018 | 0.004546% | 203,038 | 564,640 | 35.96% | 63.22% |
| 2017 | 0.004136% | 196,241 | 563,190 | 34.84% | 61.24% |
| 2016 | 0.004400% | 236,300 | 475,880 | 49.66% | 57.03% |
| 2015 | 0.004060% | 212,376 | 470,193 | 45.17% | 59.10% |
| Notes to Schedule: | | | | | |
| PERS 1 contributions are from the component of PERS 2/3 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL). | | | | | |
| *Information is presented only for those years for which information is available. | | | | | |
| PERS 2/3 | | | | | |
| | | Employer's | | Net Pension | Plan Fiduciary |
| | Employer's | Proportionate | | Liability (Asset) | Net Position as |
| | Proportion of | Share of the | Employer's | as a Percentage | a Percentage |
| | the Net Pension | Net Pension | Covered | of Covered | of the Total |
| Year | Liability (Asset) | Liability (Asset) | Payroll | Payroll | Pension Liability |
| 2020 | 0.005753% | \$ 73,577 | \$ 669,166 | 11.00% | 97.22% |
| 2019 | 0.005540% | 53,459 | 598,190 | 8.94% | 97.77% |
| 2018 | 0.005817% | 99,325 | 564,640 | 17.59% | 95.77% |
| 2017 | 0.005320% | 184,830 | 563,190 | 32.82% | 90.97% |
| 2016 | 0.005626% | 283,265 | 475,880 | 59.52% | 85.82% |
| 2015 | 0.005245% | 187,407 | 470,193 | 39.86% | 89.20% |
| Notes to Schedule: | | | | | |
| *Information is presented only for those years for which information is available. | | | | | |

VALLEY WATER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2019
LAST 10 FISCAL YEARS*

PERS 1

| Year | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Payroll | Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------|---|---|----------------------------------|--|--|
| 2019 | 0.004264% | \$ 163,971 | \$ 598,190 | 27.41% | 67.12% |
| 2018 | 0.004546% | 203,038 | 564,640 | 35.96% | 63.22% |
| 2017 | 0.004136% | 196,241 | 563,190 | 34.84% | 61.24% |
| 2016 | 0.004400% | 236,300 | 475,880 | 49.66% | 57.03% |
| 2015 | 0.004060% | 212,376 | 470,193 | 45.17% | 59.10% |

Notes to Schedule:

PERS 1 contributions are from the component of PERS 2/3 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

*Information is presented only for those years for which information is available.

PERS 2/3

| Year | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) | Employer's Covered Payroll | Net Pension Liability (Asset) as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------|---|---|----------------------------------|--|--|
| 2019 | 0.005504% | \$ 53,459 | \$ 598,190 | 8.94% | 97.77% |
| 2018 | 0.005817% | 99,325 | 564,640 | 17.59% | 95.77% |
| 2017 | 0.005320% | 184,830 | 563,190 | 32.82% | 90.97% |
| 2016 | 0.005626% | 283,265 | 475,880 | 59.52% | 85.82% |
| 2015 | 0.005245% | 187,407 | 470,193 | 39.86% | 89.20% |

Notes to Schedule:

*Information is presented only for those years for which information is available.

**VALLEY WATER DISTRICT
SCHEDULES OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 2020
LAST 10 FISCAL YEARS***

| PERS 1 | | | | | |
|---|---|---|--|----------------------------------|--|
| | | Contributions in Relation to the | | | |
| | Statutorily Required Contribution | Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
| Year | | | | | |
| 2020 | \$ 40,196 | \$ (40,196) | \$ - | \$ 853,626 | 4.71% |
| 2019 | 30,970 | (30,970) | - | 626,940 | 4.94% |
| 2018 | 29,254 | (29,254) | - | 577,978 | 5.06% |
| 2017 | 27,784 | (27,784) | - | 567,196 | 4.90% |
| 2016 | 24,988 | (24,988) | - | 523,863 | 4.77% |
| 2015 | 21,336 | (21,336) | - | 472,962 | 4.51% |
| Notes to Schedule: | | | | | |
| PERS 1 contributions are from the component of PERS 2/3 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL). | | | | | |
| *Information is presented only for those years for which information is available. | | | | | |
| PERS 2/3 | | | | | |
| | | Contributions in Relation to the | | | |
| | Statutorily Required Contribution | Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
| Year | | | | | |
| 2020 | \$ 65,372 | \$ (65,372) | \$ - | \$ 853,626 | 7.66% |
| 2019 | 48,435 | (48,435) | - | 626,940 | 7.73% |
| 2018 | 43,345 | (43,345) | - | 577,976 | 7.50% |
| 2017 | 38,866 | (38,866) | - | 567,196 | 6.85% |
| 2016 | 32,637 | (32,637) | - | 523,863 | 6.23% |
| 2015 | 26,718 | (26,718) | - | 472,962 | 5.65% |
| Notes to Schedule: | | | | | |
| *Information is presented only for those years for which information is available. | | | | | |

**VALLEY WATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2019
LAST 10 FISCAL YEARS***

PERS 1

| Year | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
|------|---|--|--|----------------------------------|--|
| 2019 | \$ 30,970 | \$ (30,970) | \$ - | \$ 626,940 | 4.94% |
| 2018 | 29,254 | (29,254) | - | 577,978 | 5.06% |
| 2017 | 27,784 | (27,784) | - | 567,196 | 4.90% |
| 2016 | 24,988 | (24,988) | - | 523,863 | 4.77% |
| 2015 | 21,336 | (21,336) | - | 472,962 | 4.51% |

Notes to Schedule:

PERS 1 contributions are from the component of PERS 2/3 contributions required to address the PERS 1 unfunded actuarially accrued liability (UAAL).

*Information is presented only for those years for which information is available.

PERS 2/3

| Year | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a Percent of Covered Payroll |
|------|---|--|--|----------------------------------|--|
| 2019 | \$ 48,435 | \$ (48,435) | \$ - | \$ 626,940 | 7.73% |
| 2018 | 43,345 | (43,345) | - | 577,978 | 7.50% |
| 2017 | 38,866 | (38,866) | - | 567,196 | 6.85% |
| 2016 | 32,637 | (32,637) | - | 523,863 | 6.23% |
| 2015 | 26,718 | (26,718) | - | 472,962 | 5.65% |

Notes to Schedule:

*Information is presented only for those years for which information is available.

**VALLEY WATER DISTRICT
SCHEDULES OF OPERATION AND PUMPING EXPENSES
YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|---------------------------------------|---------------------|---------------------|
| OPERATION AND PUMPING EXPENSES | | |
| Water Purchases | \$ 116,909 | \$ 126,064 |
| Water Treatment | 22,441 | 21,387 |
| Power | 95,027 | 89,328 |
| Water Testing | 14,176 | 13,491 |
| Repairs and Maintenance | 519,611 | 176,466 |
| General Engineering Fees | 39,395 | 82,712 |
| Comprehensive Plan | 53,423 | 61,234 |
| Utility Locates | 970 | 961 |
| Wages | 427,237 | 369,135 |
| Payroll Taxes | 16,546 | 13,993 |
| Employee Benefits | 105,842 | 96,152 |
| Property Taxes | 2,785 | 2,620 |
| Education | 2,307 | 865 |
| Travel | - | 397 |
| Vehicle Expense | 15,535 | 19,919 |
| Vehicle Repairs and Maintenance | 35,548 | 43,146 |
| Equipment Rental | 8,421 | 1,419 |
| Small Tools | 6,848 | 6,928 |
| Safety Equipment | 3,772 | 4,669 |
| Permits and Fees | 7,878 | 10,863 |
| Cellular Phone and Pagers | 6,162 | 6,160 |
| Uniforms | 3,421 | 3,547 |
| | | |
| Total Operation and Pumping Expenses | <u>\$ 1,504,254</u> | <u>\$ 1,151,456</u> |
| | | |

**VALLEY WATER DISTRICT
SCHEDULES OF OPERATION AND PUMPING EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|---------------------|-------------------|
| OPERATION AND PUMPING EXPENSES | | |
| Water Purchases | \$ 126,064 | \$ 117,555 |
| Water Treatment | 21,387 | 19,109 |
| Power | 89,328 | 93,628 |
| Water Testing | 13,491 | 14,983 |
| Repairs and Maintenance | 176,466 | 117,146 |
| General Engineering Fees | 82,712 | 16,243 |
| Comprehensive Plan | 61,234 | - |
| Utility Locates | 961 | 1,082 |
| Wages | 369,135 | 323,128 |
| Payroll Taxes | 13,993 | 14,351 |
| Employee Benefits | 96,152 | 87,249 |
| Property Taxes | 2,620 | 1,971 |
| Education | 865 | 2,541 |
| Travel | 397 | 327 |
| Vehicle Expense | 19,919 | 14,602 |
| Vehicle Repairs and Maintenance | 43,146 | 13,551 |
| Equipment Rental | 1,419 | - |
| Small Tools | 6,928 | 4,529 |
| Safety Equipment | 4,669 | 2,780 |
| Permits and Fees | 10,863 | 9,816 |
| Cellular Phone and Pagers | 6,160 | 6,760 |
| Uniforms | 3,547 | 3,217 |
| | <u>3,547</u> | <u>3,217</u> |
| Total Operation and Pumping Expenses | <u>\$ 1,151,456</u> | <u>\$ 864,568</u> |

**VALLEY WATER DISTRICT
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | 2020 | 2019 |
|--|-------------------|-------------------|
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Salaries - Office and Administration | \$ 346,283 | \$ 315,767 |
| Payroll Taxes - Office | 8,954 | 9,097 |
| Employee Benefits | 104,920 | 91,948 |
| Commissioner - Fees | 16,768 | 17,152 |
| Commissioner - Travel | 357 | 5,971 |
| Commissioner - Education | 608 | 2,170 |
| Prior Year Election Cost | - | 2,694 |
| Legal | 22,418 | 17,958 |
| State Auditor Fees | 11 | 31,383 |
| Accounting | 21,630 | 20,415 |
| Temporary and Backflow Services | 14,789 | 13,794 |
| Business Taxes | 172,969 | 194,593 |
| Insurance | 44,956 | 40,608 |
| Education | 442 | 1,107 |
| Travel | - | 2,903 |
| Office Repairs and Maintenance | 17,674 | 17,358 |
| Computer Maintenance and Support | 30,137 | 24,887 |
| Office Supplies | 2,708 | 3,321 |
| Miscellaneous Office | 12,602 | 11,442 |
| Customer Billing | 12,796 | 12,498 |
| Conservation Education | 225 | 992 |
| Postage | 3,675 | 3,353 |
| Postage Meter Rental | 593 | 563 |
| Printing | 36 | - |
| Auto | 6,113 | 7,185 |
| Telephone | 2,404 | 4,264 |
| Utilities | 17,909 | 10,785 |
| Dues and Subscriptions | 9,991 | 9,062 |
| Bank Fees | 4,871 | 4,272 |
| Total General and Administrative Expenses | \$ 876,839 | \$ 877,542 |

**VALLEY WATER DISTRICT
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Salaries - Office and Administration | \$ 315,767 | \$ 287,838 |
| Payroll Taxes - Office | 9,097 | 7,184 |
| Employee Benefits | 91,948 | 117,455 |
| Commissioner - Fees | 17,152 | 14,631 |
| Commissioner - Travel | 5,971 | 6,327 |
| Commissioner - Education | 2,170 | 2,015 |
| Prior Year Election Cost | 2,694 | - |
| Legal | 17,958 | 19,684 |
| State Auditor Fees | 31,383 | 19,102 |
| Accounting | 20,415 | 26,702 |
| Temporary and Backflow Services | 13,794 | 13,073 |
| Business Taxes | 194,593 | 151,688 |
| Insurance | 40,608 | 37,690 |
| Education | 1,107 | 1,597 |
| Travel | 2,903 | 2,180 |
| Office Repairs and Maintenance | 17,358 | 15,801 |
| Computer Maintenance and Support | 24,887 | 28,554 |
| Office Supplies | 3,321 | 4,882 |
| Miscellaneous Office | 11,442 | 640 |
| Customer Billing | 12,498 | 10,677 |
| Conservation Education | 992 | 125 |
| Postage | 3,353 | 3,821 |
| Postage Meter Rental | 563 | 561 |
| Printing | - | 429 |
| Auto | 7,185 | 8,094 |
| Telephone | 4,264 | 4,167 |
| Utilities | 10,785 | 11,708 |
| Dues and Subscriptions | 9,062 | 12,034 |
| Bank Fees | 4,272 | 4,189 |
| | <u>4,272</u> | <u>4,189</u> |
| Total General and Administrative Expenses | <u>\$ 877,542</u> | <u>\$ 812,848</u> |

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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