



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Cedar River Water and Sewer District

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

Published May 23, 2022

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

May 23, 2022

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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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*

Cedar River Water and Sewer District January 1, 2019 through December 31, 2020

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, 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 Cedar River Water and Sewer District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 17, 2022.

As discussed in Note 15 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

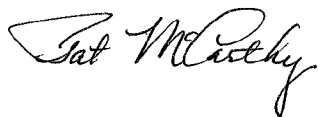
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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Pat McCarthy, State Auditor

Olympia, WA

May 17, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Cedar River Water and Sewer District January 1, 2019 through December 31, 2020

Board of Commissioners
Cedar River Water and Sewer District
Maple Valley, Washington

REPORT ON THE FINANCIAL STATEMENTS

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

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

Matters of Emphasis

As discussed in Note 15 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 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 written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

May 17, 2022

FINANCIAL SECTION

Cedar River Water and Sewer District January 1, 2019 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020 and 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020 and 2019

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

Statement of Cash Flows – 2020 and 2019

Notes to Financial Statements – 2020 and 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios – 2020 and 2019

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

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

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

INTRODUCTION

Cedar River Water and Sewer District (the District) was organized in 1960 and provides water and sewer services to customers residing within the District service area. Our mission is to provide our customers safe, reliable, and efficient water and sewer service.

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31					
	2020		2019		2018
Capital Assets	\$ 53,852,357		\$ 53,119,278		\$ 53,585,501
Other Assets	17,212,545		17,390,210		15,943,520
Total Assets	71,064,902		70,509,488		69,529,021
Deferred Outflows of Resources	240,934		187,329		165,886
Long-Term Liabilities	2,663,921		3,187,059		3,811,809
Other Liabilities	1,579,603		1,572,316		1,672,201
Total Liabilities	4,243,524		4,759,375		5,484,010
Deferred Inflows of Resources	209,297		313,104		311,062
Net Investment in Capital Assets	51,967,580		50,440,836		50,052,502
Restricted Amounts	52,249		501,363		709,803
Unrestricted Amounts	14,833,186		14,682,139		13,137,530
Total Net Position	\$ 66,853,015		\$ 65,624,338		\$ 63,899,835

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED 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
Water Service Revenue	\$ 6,143,605	\$ 5,417,620	\$ 5,709,776
Sewer Service Revenue	4,885,955	4,528,332	4,460,661
Street Light Revenue	191,709	193,113	193,033
Other Operating Revenue	73,001	168,056	201,627
Total Operating Revenues	11,294,270	10,307,121	10,565,097
Water and Sewer Operating Expenses	6,278,852	6,040,652	5,808,798
General and Administrative Expenses	2,656,624	2,235,900	2,188,699
Depreciation	1,907,463	1,921,774	1,914,933
Total Operating Expenses	10,842,939	10,198,326	9,912,430
Operating Income	451,331	108,795	652,667
Nonoperating Revenues (Expenses):			
Interest Income	274,046	467,953	246,101
Interest and Amortization	(71,629)	(94,830)	(111,352)
Net Gain (Loss) on Disposal of Assets	(21,386)	1,367	-
Bond Issue Costs	(13,865)	-	-
Income Before Capital Contributions	618,497	483,285	787,416
Capital Contributions	610,180	1,241,218	2,577,204
Increase in Net Position	1,228,677	1,724,503	3,364,620
Net Position - January 1, as Originally Reported	65,624,338	63,899,835	60,937,122
Restatement - Change in Accounting Principle	-	-	(401,907)
Net Position - January 1, as Restated	65,624,338	63,899,835	60,535,215
Net Position - December 31	\$ 66,853,015	\$ 65,624,338	\$ 63,899,835

Effective January 1, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The cumulative impact of implementation of GASB 75 resulted in a \$401,907 reduction of net position as of January 1, 2018 as a result of recognizing the January 1, 2018 OPEB liability of \$401,907.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

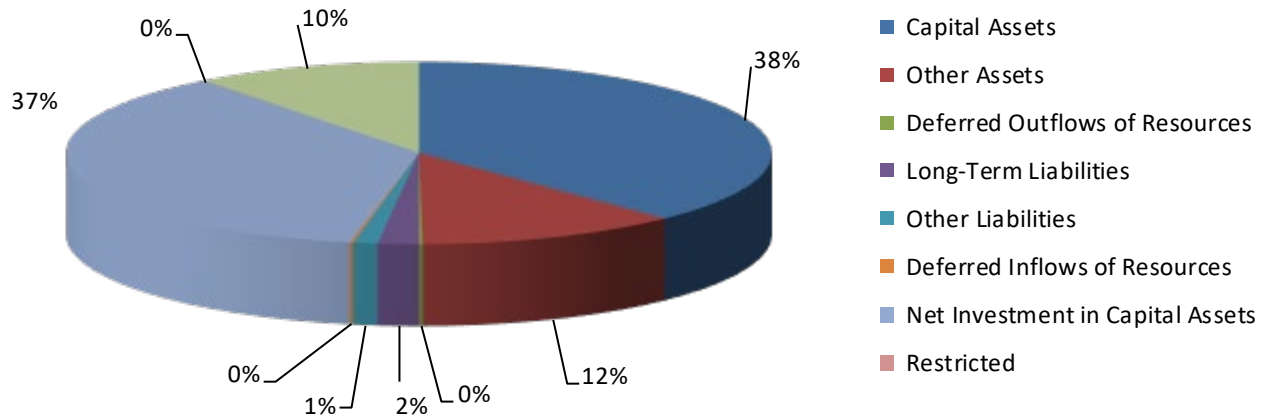
FINANCIAL POSITION

The District's overall financial position continues to be strong. The District is financed primarily by equity and sufficient liquid assets are available to fund liabilities and construction. Capital assets increased in 2020 due to construction activity and donated systems in excess of depreciation. Capital assets decreased in 2019 due to depreciation in excess of construction activity and donated systems.

The District is located in King County, Washington.

The following charts indicate the components of financial position.

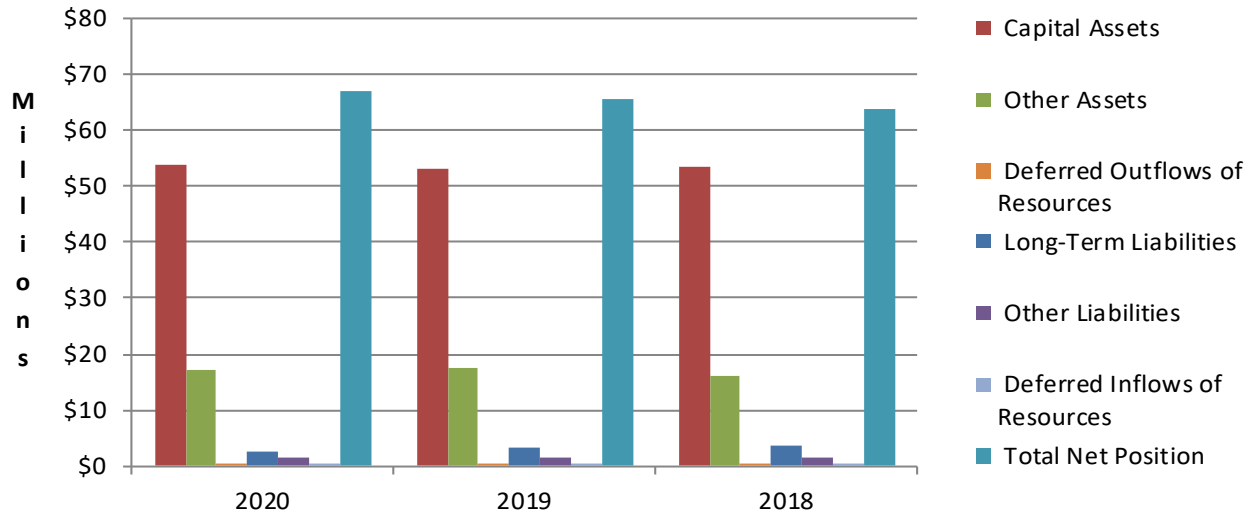
2020 STATEMENT OF NET POSITION



**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

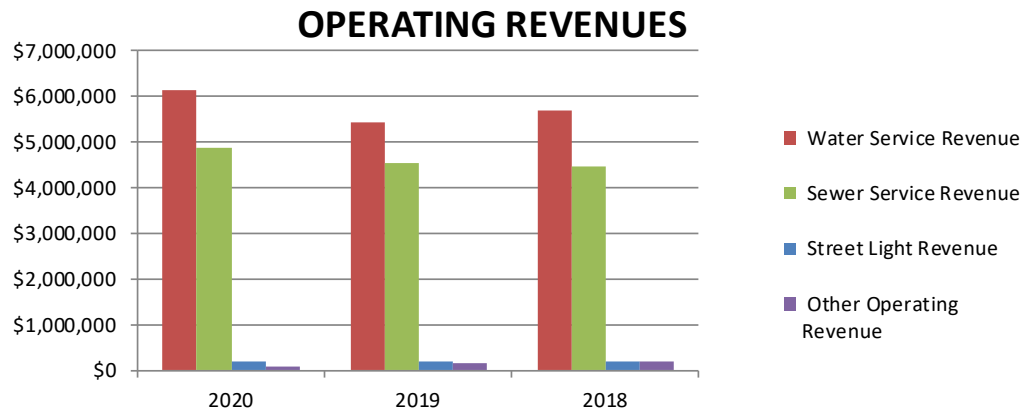
FINANCIAL POSITION (CONTINUED)

COMPARATIVE STATEMENT OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received from four sources: water service, sewer service, street lights, and other. The following chart indicates operating revenue over the last three years.

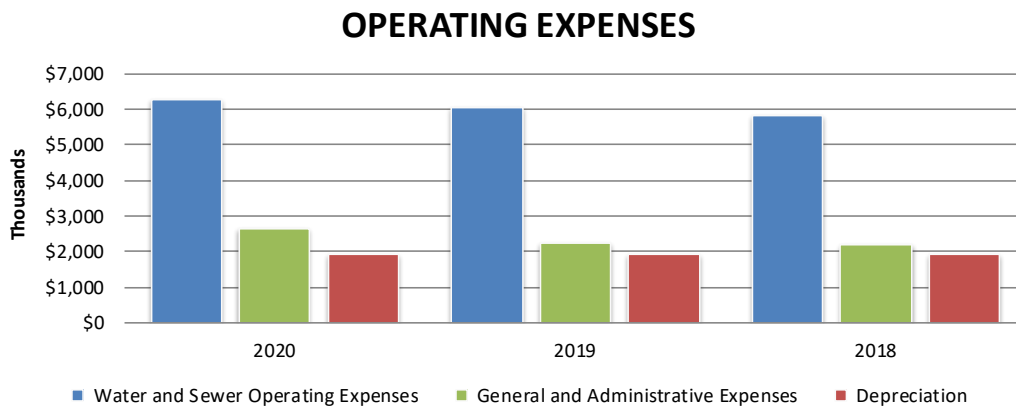


**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

RESULTS OF OPERATIONS (CONTINUED)

Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue increased in 2020 due to an increase in water consumption as a result of hotter and dryer weather conditions than in 2019 and rate increases. Water revenue decreased in 2019 due to decrease in water consumption as conditions were more temperate than 2018. The increase in sewer revenue in 2020 and 2019 was due to growth in the customer base and rates increases. The District raises its water and sewer rates as needed due to the continued increases in wholesale water and sewage treatment cost, inflationary increases in other expenses and to fund capital improvement projects. Water rate increases of approximately 6.25% and 0.5% were effective January 1, 2020 and 2019, respectively. Sewer rate increases of approximately 4.36% and 2.4% were effective January 1, 2020 and 2019, respectively.

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

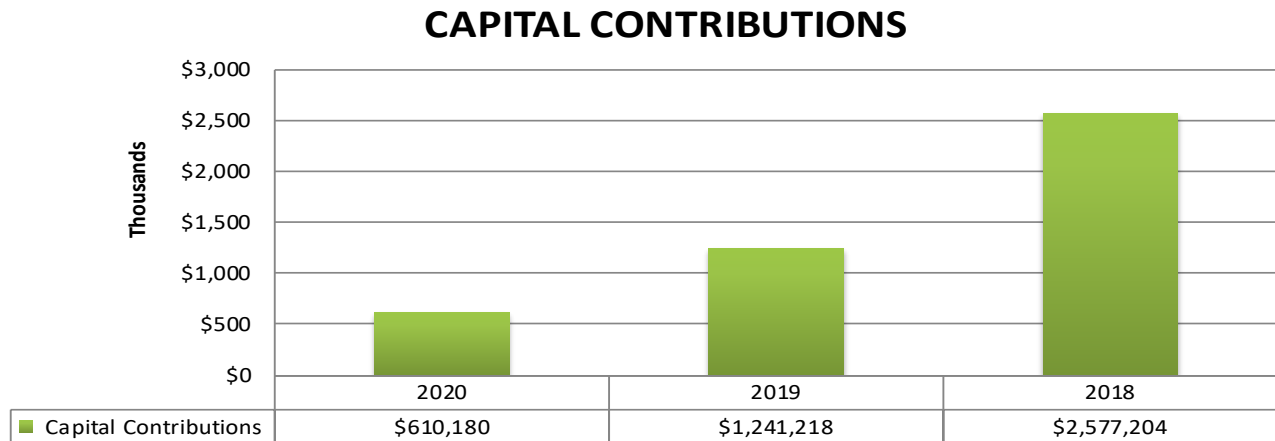


Operating expenses increased in 2020 primarily due to rate increases for water purchased, increased water consumption as a result of weather conditions, and increases in personnel costs. Operating expenses increased in 2019 primarily due to rate increases for water purchased and sewage treatment and maintenance programs. General and administrative expenses increased in 2020 primarily due to increases in wages and OPEB expense as a result of changes in assumptions. General and administrative expenses varied slightly due to changes in personnel cost in 2020. The District operated at a profit in 2020, 2019, and 2018.

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

RESULTS OF OPERATIONS (CONTINUED)

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, 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 \$81,841, \$-0-, and \$1,649,676 for the years ended December 31, 2020, 2019, and 2018, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2020 due to construction activity and donated systems in excess of depreciation. Capital assets decreased in 2019 due to depreciation in excess of construction activity and donated systems.

Significant capital asset additions during the years included the following:

2020		2019	
Water Systems:		Water Systems:	
Donated Systems	\$ 81,841	SR 169 Improvement Project	\$ 516,688
Central Loop Water Main	521,052	East Reservoir Re-Coating	434,062
SE 230th Water Main (River Erosion)	422,827	KC Culvert 162nd	74,191
KC Culvert 162nd	210,766	Telemetry Upgrade	77,153
Telemetry Upgrade	856,147		
162nd Water Main Replacement	125,383		

**CEDAR RIVER WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

Long-term debt balances decreased in 2020 and 2019 due to principal payments made by the District and a refunding transaction occurring in 2020.

See Notes 5, 6, 7, and 8 in the financial statements for detail activity in capital assets and long-term debt.

ADDITIONAL COMMENTS

The District is dependent on other governments for wholesale water and the treatment of sewage collected by the District. The cost for this product and service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct costs.

**CEDAR RIVER WATER AND SEWER 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	\$ 15,300,630	\$ 15,138,050
Accounts Receivable - Users	329,228	215,851
Accounts Receivable - Other	4,639	10,747
Unbilled Utility Service Receivable	1,057,428	970,056
Interest Receivable	12,770	29,266
Developer Extension Receivables	43,563	102,402
Inventory	199,418	207,228
Prepaid Expenses	122,701	118,432
Lien Notes Receivable, Current Portion	6,192	3,287
General Facility Charges Receivable, Current Portion	9,001	28,546
Total Unrestricted	17,085,570	16,823,865
Restricted:		
Cash and Cash Equivalents	50,474	496,832
Interest Receivable	33	925
Assessments Receivable, Current Portion	1,742	3,606
Total Restricted	52,249	501,363
Total Current Assets	17,137,819	17,325,228
NONCURRENT ASSETS		
Unrestricted:		
Lien Notes Receivable, Less Current Portion	39,176	20,160
General Facility Charges Receivable, Less Current Portion	35,550	44,822
Total Unrestricted	74,726	64,982
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,244,262	1,244,262
Construction in Progress	1,760,651	293,227
Capital Assets Being Depreciated:		
Plant in Service	91,144,907	89,971,789
Less: Accumulated Depreciation	(40,297,463)	(38,390,000)
Net Capital Assets	53,852,357	53,119,278
Total Noncurrent Assets	53,927,083	53,184,260
Total Assets	71,064,902	70,509,488
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	240,831	187,232
Deferred Outflows Related to Other Postemployment Benefits	103	97
Total Deferred Outflows of Resources	240,934	187,329
Total Assets and Deferred Outflows of Resources	<u>\$ 71,305,836</u>	<u>\$ 70,696,817</u>

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATER AND SEWER 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	\$ 764,102	\$ 652,612
Compensated Absences	135,474	141,863
Developer Extensions Payable	171,018	219,403
Retainage Payable	31,784	14,350
Accrued Interest	3,388	10,251
Long-Term Debt, Current Maturities	473,837	533,837
Total Current Liabilities	1,579,603	1,572,316
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities	1,210,919	2,088,584
Compensated Absences	168,737	115,863
Net Pension Liability	554,104	490,188
Other Postemployment Benefits Liability	730,161	492,424
Total Noncurrent Liabilities	2,663,921	3,187,059
 Total Liabilities	 4,243,524	 4,759,375
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	178,232	313,104
Deferred Gains on Refunding of Debt	31,065	-
Total Deferred Outflows of Resources	209,297	313,104
 Total Liabilities and Deferred Inflows of Resources	 4,452,821	 5,072,479
 NET POSITION		
Net Investment in Capital Assets	51,967,580	50,440,836
Restricted for Debt Service	49,461	497,645
Restricted for Impaired Investments	2,788	3,718
Unrestricted	14,833,186	14,682,139
Total Net Position	66,853,015	65,624,338
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 71,305,836	 \$ 70,696,817

See accompanying Notes to Financial Statements.

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

	2020	2019
OPERATING REVENUES		
Service Charges:		
Water Charges	\$ 6,143,605	\$ 5,417,620
Sewer Charges	4,885,955	4,528,332
Street Lights	191,709	193,113
Total Service Charges	11,221,269	10,139,065
Permit Income	1,300	3,400
Late Charges	24,220	105,818
Miscellaneous	47,481	58,838
Total Operating Revenues	11,294,270	10,307,121
OPERATING EXPENSES		
Supply	5,048,701	4,857,889
Distribution and Maintenance	1,230,151	1,182,763
General and Administrative	2,656,624	2,235,900
Depreciation	1,907,463	1,921,774
Total Operating Expenses	10,842,939	10,198,326
OPERATING INCOME	451,331	108,795
NONOPERATING REVENUES		
Investment Income, Net of Service Fees	268,218	461,124
Interest on Assessments	562	565
Interest on Contracts	3,567	5,250
Interest on Lien Notes	1,699	1,014
Net Gain (Loss) on Disposal and Abandonment of Assets	(21,386)	1,367
Interest and Amortization on Long-Term Debt	(71,629)	(94,830)
Bond Issue Costs	(13,865)	-
Total Nonoperating Revenues	167,166	374,490
INCOME BEFORE CAPITAL CONTRIBUTIONS	618,497	483,285
Capital Contributions	610,180	1,241,218
CHANGE IN NET POSITION	1,228,677	1,724,503
Net Position - Beginning of Year	65,624,338	63,899,835
NET POSITION - END OF YEAR	<u>\$ 66,853,015</u>	<u>\$ 65,624,338</u>

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 11,099,629	\$ 10,253,296
Cash Paid to Vendors	(6,300,381)	(6,043,798)
Cash Paid to and for Employees and Commissioners	(2,457,004)	(2,248,827)
Net Cash Received (Paid) for Developer Extensions	11,554	(38,713)
Net Cash Provided by Operating Activities	2,353,798	1,921,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	504,320	1,241,218
Collections on ULID Assessments Receivable	1,864	1,853
Collections on Lien Notes	2,098	23,008
Collections on General Facility Charge Notes	28,817	34,931
Interest Received on Assessments, Lien Notes, and General Facility Charges Receivable	4,782	7,265
Proceeds from Sale of Assets	-	1,367
Proceeds from Issuance of Long-Term Debt	3,901	-
Payment to Escrow Account to Refund Bonds	(372,967)	-
Expenditures for Plant in Service and Construction	(2,467,152)	(1,399,882)
Preliminary Surveys and Investigations		
Payment on Long-Term Debt	(533,837)	(883,837)
Interest Paid on Long-Term Debt	(96,054)	(124,010)
Net Cash Used by Capital and Related Financing Activities	(2,924,228)	(1,098,087)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	286,652	456,395
Net Cash Provided by Investing Activities	286,652	456,395
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(283,778)	1,280,266
Cash and Cash Equivalents - Beginning of Year	15,634,882	14,354,616
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 15,351,104	\$ 15,634,882
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 15,300,630	\$ 15,138,050
Cash and Cash Equivalents - Restricted	50,474	496,832
Total	\$ 15,351,104	\$ 15,634,882

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATER AND SEWER 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	\$ 451,331	\$ 108,795
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	1,907,463	1,921,774
(Increase) Decrease in Assets and Deferred		
Outflows of Resources:		
Accounts Receivable	(194,641)	(53,825)
Developer Extension Receivables	58,839	(97,939)
Prepaid Expenses	(4,269)	(29,184)
Inventory	7,810	(40,975)
Deferred Outflows Related to Pensions	(53,599)	(22,801)
Deferred Outflows Related to Other Postemployment Benefits	(6)	(78)
Increase (Decrease) in Liabilities:		
Accounts Payable	15,989	106,014
Developer Extensions Payable	(48,385)	52,060
Compensated Absences	46,485	56,911
Other Postemployment Benefits Liability	237,737	66,109
Net Pension Liability	63,916	(146,945)
Deferred Inflows Related to Pensions	(134,872)	2,042
Net Cash Provided by Operating Activities	<u>\$ 2,353,798</u>	<u>\$ 1,921,958</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH		
FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	<u>\$ 81,841</u>	<u>\$ -</u>
Lien Notes Assessed	<u>\$ 24,019</u>	<u>\$ -</u>
Revenue Refunding Bonds Issued in Exchange for Deposit to Refunding Escrow Account, Interest to the Refunding Date, and Issue Costs	<u>\$ 1,091,099</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED 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

Cedar River Water and Sewer 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 water and sewer systems within its boundaries, which include east Renton and Maple Valley. 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.

Cash and Cash Equivalents

The District considers investments in the King County Investment Pool (the Pool) to be cash equivalents. These investments are stated at the fair value of the Pool's underlying assets.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable are considered fully collectible 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, using the first-in, first-out (FIFO) method or net realizable value.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED 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 and include the capitalized portion of District employees' wages and related overhead costs. For water and sewer 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 estimated cost plus an allocation of District overhead costs. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. 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:

Water Systems	5 to 50 Years
Sewer Systems	5 to 50 Years
Office Building	33 Years
Equipment and Other	5 to 50 Years

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.

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 contributions to the OPEB plan subsequent to the June 30 measurement date, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. OPEB and pension plan contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability and net pension liability, respectively, 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 related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

Deferred Outflows/Inflows of Resources (Continued)

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 gains on refunding of debt and the District's proportionate share of deferred inflows related to pension plans. Deferred gains on refunding of debt result from a difference in the carrying value of refunded debt and its reacquisition price. Gains on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. 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.

Compensated Absences

District employees accumulate vacation hours subject to certain limitations for subsequent use or for payment upon termination, retirement, or death. Sick leave benefits earned are accumulated by District employees as follows: annually, half of the previous year's unused sick leave is paid out to employees and the remaining half of the previous year's unused sick leave is converted to long-term sick leave and accumulated without limit for subsequent use or for payment upon termination, retirement, or death. The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned.

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.

Restricted – 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."

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

Net Position (Continued)

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 and sewer systems. 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 \$400 and \$400, respectively. The District's bank balances as of December 31, 2020 and 2019 were \$18,977 and \$14,281, 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's 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).

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

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

			Average
			Effective
<u>Investment Type</u>	<u>Fair Value</u>		<u>Duration</u>
<u>2020</u>			
King County Investment Pool:			
Main Pool	\$ 15,328,939		1.20 Years
Impaired Pool	2,788		
<u>2019</u>			
King County Investment Pool:			
Main Pool	\$ 15,616,483		0.92 Years
Impaired Pool	3,718		

Impaired Investments

As of December 31, 2020 and 2019, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. As of December 31, 2019, the Impaired Pool also held the residual investments in one commercial paper asset that was part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$4,471 and \$5,525 at December 31, 2020 and 2019, respectively. The District's unrealized loss for these investments is \$1,683 and \$1,807 at December 31, 2020 and 2019, respectively.

Interest Rate Risk

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

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

As of December 31, 2020 and 2019, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by one NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by one NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office

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.

Restricted assets are as follows:

	December 31, 2020		
	Revenue Bond Fund	Impaired Investment Pool	Total
Current Restricted Assets:			
Cash and Cash Equivalents	\$ 47,686	\$ 2,788	\$ 50,474
Interest Receivable	33	-	33
Assessments Receivable	1,742	-	1,742
Total	<u>\$ 49,461</u>	<u>\$ 2,788</u>	<u>\$ 52,249</u>
	December 31, 2019		
	Revenue Bond Fund	Impaired Investment Pool	Total
Current Restricted Assets:			
Cash and Cash Equivalents	\$ 493,114	\$ 3,718	\$ 496,832
Interest Receivable	925	-	925
Assessments Receivable	3,606	-	3,606
Total	<u>\$ 497,645</u>	<u>\$ 3,718</u>	<u>\$ 501,363</u>

Terms of the revenue bond issues require the District to establish and maintain sinking fund and reserve accounts within the revenue bond fund. The sinking fund accounts are to accumulate funds for payment of bond principal and interest and the reserve account is to provide security for bond holders.

The required reserve account at December 31, 2020 and 2019 was \$42,250 and \$453,000, respectively, for all issues. As of December 31, 2020 and 2019, both the sinking fund and reserve accounts were fully funded.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 4 LIEN NOTES RECEIVABLE AND GENERAL FACILITY CHARGES RECEIVABLE

The District's lien notes receivable represent installment contracts for payment of charges in lieu of assessment by customers and developers.

General facility charges receivable (GFC's) represents GFC assessments being collected over time through surcharges to the property owners.

NOTE 5 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, Land Rights, and Other	\$ 1,244,262	\$ -	\$ -	\$ 1,244,262
Construction in Progress	293,227	2,138,776	(671,352)	1,760,651
Total	1,537,489	2,138,776	(671,352)	3,004,913
Capital Assets Being Depreciated:				
Water Systems	57,012,415	1,092,805	-	58,105,220
Sewer Systems	21,033,311	1,436	-	21,034,747
Office Building	8,654,519	21,194	-	8,675,713
Equipment and Other	3,271,544	57,683	-	3,329,227
Total	89,971,789	1,173,118	-	91,144,907
Accumulated Depreciation:				
Water Systems	(23,268,947)	(1,150,735)	-	(24,419,682)
Sewer Systems	(8,317,874)	(419,778)	-	(8,737,652)
Office Building	(3,715,467)	(252,754)	-	(3,968,221)
Equipment and Other	(3,087,712)	(84,196)	-	(3,171,908)
Total	(38,390,000)	(1,907,463)	-	(40,297,463)
Net Capital Assets	\$53,119,278	\$ 1,404,431	\$ (671,352)	\$53,852,357

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 5 CAPITAL ASSETS (CONTINUED)

	2019			
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,244,262	\$ -	\$ -	\$ 1,244,262
Construction in Progress	155,065	1,213,175	(1,075,013)	293,227
Total	1,399,327	1,213,175	(1,075,013)	1,537,489
Capital Assets Being Depreciated:				
Water Systems	55,766,018	1,246,397	-	57,012,415
Sewer Systems	21,001,549	31,762	-	21,033,311
Office Building	8,621,166	33,353	-	8,654,519
Equipment and Other	3,294,877	5,877	(29,210)	3,271,544
Total	88,683,610	1,317,389	(29,210)	89,971,789
Accumulated Depreciation:				
Water Systems	(22,140,862)	(1,128,085)	-	(23,268,947)
Sewer Systems	(7,898,428)	(419,446)	-	(8,317,874)
Office Building	(3,463,542)	(251,925)	-	(3,715,467)
Equipment and Other	(2,994,604)	(122,318)	29,210	(3,087,712)
Total	(36,497,436)	(1,921,774)	29,210	(38,390,000)
Net Capital Assets	<u>\$53,585,501</u>	<u>\$ 608,790</u>	<u>\$ (1,075,013)</u>	<u>\$53,119,278</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 6 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:		
\$4,345,000 issued August 17, 2010 for utility construction, due serially through the year 2024, with interest payable semiannually at 4.25 to 5.0 annual percentage rates. Refunded December 2, 2020.	\$ -	\$ 1,775,000
\$2,135,000 issued April 29, 2015 for refunding, due serially through the year 2023, with interest payable semiannually at 3.0 percentage rate	110,000	145,000
Total Revenue and Refunding Bonds	110,000	1,920,000
Direct Borrowings and Direct Placements:		
All issued for utility construction, except as otherwise indicated, and secured by the revenue of the system.		
\$1,095,000 issued to Key Bank on December 2, 2020 for refunding, due annually through the year 2024, with interest payable semiannually at 1.07 percentage rate	1,095,000	-
2001 \$1,756,455 loan, payable \$85,923 annually through the year 2021, plus interest at .5 annual percentage rate	85,922	171,845
2004 \$1,428,921 loan, payable \$78,388 annually through the year 2024, plus interest at .5 annual percentage rate	313,552	391,939
2008 \$181,000 loan, payable \$9,526 annually through the year 2028, plus interest at 3.0 annual percentage rate	76,210	85,738
Total Direct Borrowings and Direct Placements	1,570,684	649,522
Total Long-Term Debt	1,680,684	2,569,522
Less: Current Maturities	(473,837)	(533,837)
Add: Unamortized Bond Premiums	4,072	52,899
Total	\$ 1,210,919	\$ 2,088,584

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Long-term debt service requirements to maturity are as follows:

Year Ending December 31,	Revenue and Refunding Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2021	\$ 35,000	\$ 3,300	\$ 438,837	\$ 15,968	\$ 493,105
2022	40,000	2,250	362,914	12,057	417,221
2023	35,000	1,050	362,914	8,437	407,401
2024	-	-	367,914	4,817	372,731
2025	-	-	9,526	1,143	10,669
2026-2028	-	-	28,579	1,715	30,294
Total	<u>\$ 110,000</u>	<u>\$ 6,600</u>	<u>\$ 1,570,684</u>	<u>\$ 44,137</u>	<u>\$ 1,731,421</u>

NOTE 7 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	2020				
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Amounts Due Within One Year
Revenue Bonds	\$ 1,920,000	\$ -	\$ (1,810,000)	\$ 110,000	\$ 35,000
Bond Premium	52,899	-	(48,827)	4,072	-
Revenue Bond to Key Bank	-	1,095,000	-	1,095,000	265,000
Public Works Trust					
Fund Loans	649,522	-	(173,838)	475,684	173,837
Compensated Absences	257,726	182,711	(136,226)	304,211	135,474
Net Pension Liability	490,188	63,916	-	554,104	-
Other Postemployment Benefits Liability	492,424	237,920	(183)	730,161	-
Total	<u>\$ 1,889,860</u>	<u>\$ 484,547</u>	<u>\$ (310,247)</u>	<u>\$ 2,064,160</u>	<u>\$ 309,311</u>
	2019				
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Amounts Due Within One Year
Revenue Bonds	\$ 2,630,000	\$ -	\$ (710,000)	\$ 1,920,000	\$ 360,000
Bond Premium	80,725	-	(27,826)	52,899	-
Public Works Trust					
Fund Loans	823,358	-	(173,836)	649,522	173,837
Compensated Absences	200,815	198,816	(141,905)	257,726	141,863
Net Pension Liability	637,133	-	(146,945)	490,188	-
Other Postemployment Benefits Liability	426,315	66,290	(181)	492,424	-
Total	<u>\$2,087,621</u>	<u>\$ 265,106</u>	<u>\$ (462,867)</u>	<u>\$ 1,889,860</u>	<u>\$ 315,700</u>

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 8 REFUNDED BONDS

On December 2, 2020, the District issued a \$1,095,000 Water and Sewer Revenue Refunding Bonds to Key Bank with interest at 1.07% to advance refund \$1,450,000 of outstanding 2010 bonds with interest at 5.00%. The net proceeds of the refunding bonds, excluding \$3,901 remitted to the District, plus \$372,967, of cash on hand, totaling \$1,450,201 including \$202 representing accrued interest to the refunding date, were used to provide the beginning escrow cash balance. The cash was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds were considered to be extinguished and the related liability for the bonds was removed from the District's liabilities. The principal amount of refunded bonds outstanding in this fund at December 31, 2020 is \$-0-.

The advance refunding resulted in an accounting gain of \$32,088 (which will be amortized over the shorter of the life of the refunded or refunding bonds). The District reduced its aggregate debt service payments by \$511,251 through December 1, 2024 and obtained an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$129,250.

NOTE 9 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
Pension Liabilities	\$	554,104	\$ 490,188
Deferred Outflows of Resources		240,831	187,232
Deferred Inflows of Resources		178,232	313,104
Pension Expense		88,408	26,327

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (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.

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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>	Employer	Employee
<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 \$79,208 and \$74,431 for the years ended December 31, 2020 and 2019, respectively.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 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 \$130,782 and \$116,883 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*.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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*.

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington State average wage. OSA set these values 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

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.

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%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
<u>2020</u>			
PERS 1	\$ 472,079	\$ 376,892	\$ 293,879
PERS 2/3	1,102,662	177,212	(584,896)
<u>2019</u>			
PERS 1	\$ 462,826	\$ 369,575	\$ 288,668
PERS 2/3	925,054	120,613	(539,484)

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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

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	2019
PERS 1	\$ 376,892	\$ 369,575
PERS 2/3	177,212	120,613
Total	\$ 554,104	\$ 490,188

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	0.009611 %	0.010675 %	0.001064 %
PERS 2/3	0.012417	0.013856	0.001439
	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.009583 %	0.009611 %	0.000028 %
PERS 2/3	0.012249	0.012417	0.000168

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.

Pension Expense

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

	2020	2019
PERS 1	\$ 63,236	\$ 17,953
PERS 2/3	22,199	5,655
Expenses and Other	2,973	2,719
Total	\$ 88,408	\$ 26,327

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 PENSION PLAN (CONTINUED)

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	-	2,098
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	39,975	-
Total PERS 1	39,975	2,098
PERS 2/3:		
Differences Between Expected and Actual Experience	63,439	22,210
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	9,000
Changes of Assumptions	2,524	121,051
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	69,389	23,873
Contributions Subsequent to the Measurement Date	65,504	-
Total PERS 2/3	200,856	176,134
Total All Plans	\$ 240,831	\$ 178,232

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9 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	-	24,692
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	39,279	-
Total PERS 1	39,279	24,692
PERS 2/3:		
Differences Between Expected and Actual Experience	34,555	25,931
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	175,563
Changes of Assumptions	3,089	50,605
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	44,959	36,313
Contributions Subsequent to the Measurement Date	65,350	-
Total PERS 2/3	147,953	288,412
Total All Plans	\$ 187,232	\$ 313,104

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	\$ (9,523)	\$ (66,915)
2022	(300)	(10,959)
2023	2,906	9,767
2024	4,819	27,621
2025	-	1,197
Thereafter	-	(1,493)
Total	\$ (2,098)	\$ (40,782)

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

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

	2020	2019
OPEB Liabilities	\$ 730,161	\$ 492,424
Deferred Outflows of Resources	103	97
OPEB Expense	237,920	66,290

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

Plan Description - The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents as a single employer plan. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Benefits Provided - The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date of June 30, 2020, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50% of the monthly premiums. As of the valuation date of June 30, 2019, \$168 or 50% of the monthly premiums. The retirees and spouses currently pay the premium minus \$183 when the premium is over \$366 per month and pay half the premium when the premium is lower than \$366.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Employees Covered by Benefit Terms

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

	2020	2020
Active Employees	18	17

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2020 and 2019, and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Total OPEB Liability (Continued)

The alternative measurement was based on the following methods and assumptions:

Methodology:			
Actuarial Cost Method		Entry Age	
Amortization Method		Recognized Immediately	
Assumptions:			
Discount Rate - Based on Bond Buyer General Obligation 20-Bond Municipal Index:			
		2020	2019
Beginning of Measurement Year		3.50%	3.87%
End of Measurement Year		2.21%	3.50%
		2020	2019
Projected Salary Changes		3.50%	3.50%
		Plus Service-Based Increases	
Healthcare Trend Rates		Initial Rate is Approximately 7%, trends down to approximately 5% in 2020	
Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.			
Mortality Rates:			
Base Mortality Table		Healthy RP-2000	
Age Setback		1 year	
Mortality Improvements		100% Scale BB	
Projection Period		Generational	
		2020	2019
Inflation Rate		2.75%	2.75%
Postretirement Participation Percentage		65.00%	
Percentage with Spouse Coverage		45.00%	

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	2020	2019
Balance - January 1	\$ 492,424	\$ 426,315
Service Cost	34,387	29,125
Interest	18,435	17,622
Changes in Experience and Data Assumptions	185,098	19,543
Changes in Benefit Terms	-	-
Benefit Payments	(183)	(181)
Other	-	-
Total	\$ 730,161	\$ 492,424

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

	2019		
	1% Decrease	Current Rate	1% Increase
Discount Rate	\$ 912,699	\$ 730,161	\$ 589,921
Healthcare Cost Trend Rate	565,231	730,161	955,223
	2020		
	1% Decrease	Current Rate	1% Increase
Discount Rate	\$ 608,573	\$ 492,424	\$ 402,420
Healthcare Cost Trend Rate	386,645	492,424	635,310

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	2020	2019
Service Cost	\$ 34,387	\$ 29,125
Interest Cost	18,435	17,622
Changes in Experience and Data Assumptions	185,098	19,543
Total	\$ 237,920	\$ 66,290

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

	2020	2019
<u>Deferred Outflows of Resources</u>		
Contributions Subsequent to the Measurement Date	\$ 103	\$ 97

Deferred outflows of resources resulting from payment subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

NOTE 11 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2020 or 2019.

NOTE 12 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 12 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	\$1,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$1,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000	Same as above	\$15,000,000
Employment Practices	\$1,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/ Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

- A. \$100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V, \$250,000 member deductible per occurrence, in Flood Zones A&V.
- B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 12 RISK MANAGEMENT (CONTINUED)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 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 13 MAJOR SUPPLIERS

All sewage treatment and water purchased by the District is provided by King County Wastewater Treatment Division and the City of Seattle, respectively.

NOTE 14 COMMITMENTS

As of December 31, 2020, the District is obligated under a construction contract totaling \$1,952,593 of which \$1,194,171 has been expended.

**CEDAR RIVER WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 15 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.

**CEDAR RIVER WATER AND SEWER DISTRICT
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
YEARS ENDED JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS***

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability - Beginning	\$ 492,424	\$ 426,315	\$ 401,907
Service Cost	34,387	29,125	40,169
Interest	18,435	17,622	15,826
Changes in Benefit Terms	-	-	-
Changes in Experience and Data Assumptions	185,098	19,543	(31,587)
Benefit Payments	(183)	(181)	-
Other Changes	-	-	-
Total OPEB Liability - Ending	<u>\$ 730,161</u>	<u>\$ 492,424</u>	<u>\$ 426,315</u>
 Covered Payroll	 1,649,338	 \$ 1,292,678	 \$ 1,069,349
 Total OPEB Liability as a Percentage of Covered Payroll	 44.27 %	 38.09 %	 39.87 %

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

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

**CEDAR RIVER WATER AND SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS***

PERS 1

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2020	0.010675 %	\$ 376,892	\$ 1,649,338	22.85 %	68.64 %
2019	0.009611	369,575	1,343,262	27.51	67.12
2018	0.009583	427,986	1,292,754	33.11	63.22
2017	0.008449	400,920	1,072,392	37.39	61.24
2016	0.009414	505,555	1,211,477	41.73	57.03
2015	0.011398	596,199	1,210,387	49.26	59.10
2014	0.010394	523,607	1,160,718	45.11	61.19
2013	0.010354	605,004	1,136,478	53.23	

Notes to Schedule:

1. 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

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2020	0.013856 %	\$ 177,212	\$ 1,649,338	10.74 %	97.22
2019	0.012417	120,613	1,343,262	8.98	97.77
2018	0.012249	209,147	1,292,754	16.18	95.77
2017	0.010868	377,608	1,072,392	35.21	90.97
2016	0.012078	608,108	1,211,477	50.20	85.82
2015	0.014717	525,856	1,210,387	43.45	89.20
2014	0.013382	270,507	1,160,718	23.31	93.29
2013	0.013789	588,772	1,136,478	51.81	

Notes to Schedule:

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

**CEDAR RIVER WATER AND SEWER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

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
2020	\$ 79,208	\$ (79,208)	\$ -	\$ 1,651,289	4.80 %
2019	74,431	(74,431)	-	1,510,401	4.93
2018	67,240	(67,240)	-	1,328,171	5.06
2017	57,561	(57,561)	-	1,172,786	4.91
2016	52,973	(52,973)	-	1,110,545	4.77
2015	53,991	(53,991)	-	1,229,827	4.39
2014	47,444	(47,444)	-	1,175,727	4.04
2013	37,223	(37,223)	-	1,156,368	3.22

Notes to Schedule:

1. 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
2020	\$ 130,782	\$ (130,782)	\$ -	\$ 1,651,289	7.92 %
2019	116,883	(116,883)	-	1,510,401	7.74
2018	99,610	(99,610)	-	1,328,171	7.50
2017	80,909	(80,909)	-	1,172,786	6.90
2016	69,187	(69,187)	-	1,110,545	6.23
2015	69,337	(69,337)	-	1,229,827	5.64
2014	58,724	(58,724)	-	1,175,727	4.99
2013	55,956	(55,956)	-	1,156,368	4.84

Notes to Schedule:

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

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.

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