



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Birch Bay Water and Sewer District

For the period January 1, 2020 through December 31, 2021

Published January 30, 2023

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

January 30, 2023

Board of Commissioners
Birch Bay Water and Sewer District
Birch Bay, Washington

Report on Financial Statements

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

We are issuing this report in order to provide information on the District's financial activities and 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*

Birch Bay Water and Sewer District January 1, 2020 through December 31, 2021

Board of Commissioners
Birch Bay Water and Sewer District
Birch Bay, 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 Birch Bay Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 24, 2023.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy, State Auditor

Olympia, WA

January 24, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Birch Bay Water and Sewer District January 1, 2020 through December 31, 2021

Board of Commissioners
Birch Bay Water and Sewer District
Birch Bay, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Birch Bay Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Birch Bay Water and Sewer District, and its changes in cash and investments, for the years ended December 31, 2021 and 2020, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Birch Bay Water and Sewer District, as of December 31, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2023 on our consideration of the District's internal control over financial reporting and on the 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 the effectiveness of the District's 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

January 24, 2023

FINANCIAL SECTION

Birch Bay Water and Sewer District January 1, 2020 through December 31, 2021

FINANCIAL STATEMENTS

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Fund Resources and Uses Arising from Cash Transactions – 2020
Notes to Financial Statements – 2021
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020

Birch Bay Water and Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	5,487,947
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	25,292
340	Charges for Goods and Services	5,029,442
350	Fines and Penalties	3,484
360	Miscellaneous Revenues	285,669
Total Revenues:		5,343,887

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,498,084
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,498,084
Excess (Deficiency) Revenues over Expenditures:		1,845,803

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	393,692
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	26,249
Total Other Increases in Fund Resources:		419,941

Other Decreases in Fund Resources

594-595	Capital Expenditures	803,956
591-593, 599	Debt Service	561,516
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	333
Total Other Decreases in Fund Resources:		1,365,805

Increase (Decrease) in Cash and Investments: 899,939

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	6,387,886
50891	Unassigned	-
Total Ending Cash and Investments		6,387,886

Birch Bay Water and Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	5,071,942
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	1,835
340	Charges for Goods and Services	4,784,640
350	Fines and Penalties	6,205
360	Miscellaneous Revenues	241,901
Total Revenues:		5,034,581

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	3,456,245
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		3,456,245
Excess (Deficiency) Revenues over Expenditures:		1,578,336

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	393,288
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	25,092
Total Other Increases in Fund Resources:		418,380

Other Decreases in Fund Resources

594-595	Capital Expenditures	1,012,043
591-593, 599	Debt Service	546,612
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	22,053
Total Other Decreases in Fund Resources:		1,580,708

Increase (Decrease) in Cash and Investments: 416,008

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	-
50891	Unassigned	5,487,947
Total Ending Cash and Investments		5,487,947

Birch Bay Water & Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies

The Birch Bay Water & Sewer District was incorporated on May 2, 1968 and operates under the laws of the state of Washington applicable to a Water and Sewer District (Title 57 RCW). The District is a proprietary special purpose local government and provides water and sewer services to the general public and is supported primarily through service fees and utility local improvement assessments.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from Generally Accepted Accounting Principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (see Notes to the Financial Statements).
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

Proprietary Fund Types:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the District [5] also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

See Note 4 – *Deposits and Investments*.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 20 days and is payable upon separation or retirement. Sick leave may be accumulated up to 75 days for District employees in the Management Group. District employees in the Employee Contract are eligible to receive 50% sick leave payout in excess of 480 hours. Upon separation or retirement employees receive a percentage of unused sick leave paid into a Voluntary Employee Beneficiary Association (VEBA) account. Payments are recognized as expenditures when paid. If the District employee in the Employee Contract worked twenty years or more, the rate is 67.5% payable into a VEBA account. Employees in the Management Group are eligible to receive 45% of sick leave payout into a VEBA account.

F. Long-Term Debt

See Note 3 – Long-term Debt (Formerly Debt Service Requirements).

Note 2 – Budget Compliance

Budgets are not required by statute for Water-Sewer Districts. It has been the policy of the Board of Commissioners that they adopt an annual operating budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund. These budgets are appropriated at the function level. This function level budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Operations	\$ 4,032,872	\$ 3,498,417	\$ 534,455
Capital	\$ 2,010,279	\$ 803,956	\$1,206,323
Debt	\$ 608,644	\$ 561,516	\$ 47,128
Total	\$ 6,651,795	\$ 4,863,889	\$1,787,906

All CIP is included in the Annual Budget document and budget expenditures are managed during the year on a CIP level.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

On March 26, 2020 the Board of Commissioners declared a local civil emergency in response to the COVID-19 pandemic. On that same date, the Board of Commissioners resolved to suspend late fees and water shut offs for delinquent balances. As of the beginning of 3/7/2022, there are approximately 90 customers delinquent six months or more on their accounts, specific to the COVID-19 time period, and that total balance is \$59,001.

Substantially, all District employees have continued to work during the pandemic, in either remote or in-person capacity. On April 9, 2020 the Board of Commissioners resolved to allow employees with no sick leave balance to go negative during the pandemic. That resolution states that the replenishment of their sick leave will occur during regular monthly accruals per the employee contract or if not repaid, at the point of separation there would be a payroll deduction. As of the date of this report, all employees have positive sick leave balances. The Board of Commissioners resolved in three separate resolutions, 1/12/2021, 4/22/2021, and 9/23/2021 to follow the Families First Coronavirus Act which mainly extended 80 hours of emergency sick leave due to COVID related issues to the employees.

Currently, the District is still under the local civil emergency. 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.

Note 4 – Deposits and Investments

Investments are reported at cost. Deposits and investments by type at December 31, 2021 are as follows:

Type of deposit or investment	District's own deposits and investments
L.G.I.P.	\$6,082,468.05
Bank Deposits	\$305,418.24
Total	\$6,387,886.29

It is the District's policy to invest all District defined reserve funds and temporary cash surpluses. The District will invest its funds in a manner that preserves capital and ensures the protection of investment principal, allows for its liquidity needs, and achieves the highest investment return consistent with the primary objectives of safety and liquidity. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is recorded in the District's fund.

Investments in the State Local Government Investment Pool (LGIP)

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

Custodial Credit Risk

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 would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly 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).

All investments are insured, registered or held by the District or its agent in the government's name.

Note 5 – Long-Term Debt (formerly Debt Service Requirements)

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2021.

The debt service requirements for Public Works Board Trust Fund loans are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 543,208	\$ 43,460	\$ 586,668
2023	\$ 543,208	\$ 41,589	\$ 584,797
2024	\$ 543,208	\$ 37,032	\$ 580,240
2025	\$ 381,322	\$ 32,474	\$ 413,796
2026	\$ 345,125	\$ 28,727	\$ 373,851
2027-2031	\$ 1,059,656	\$ 96,790	\$ 1,156,446
2032-2036	\$ 762,951	\$ 33,169	\$ 796,120
2037-2041	\$ 125,615	\$ 3,128	\$ 128,743
Total	\$ 4,304,293	\$ 316,369	\$ 4,620,662

In April 2018, the District received a Washington State Public Works Board Loan (PC18-96103-001) for an "Automated Meter Reading System" project that is still in progress. The District began loan repayments in June 2019. The amortization schedule for that loan is estimated. The project is expected to be completed in 2023.

Note 6 – OPEB Plans

The District is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 10 active plan members and 1 retired plan members as of December 31, 2021. As of June 30, 2021, the District's total OPEB liability was \$536,420 as calculated using the alternative measurement method. The District contributed \$144,810 to the plan for the year ended December 31, 2021.

Note 7 – Pension Plans

A. State Sponsored Pension Plans

Substantially all the District's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Also, the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2021, the District's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$56,946	.007645%	\$ 93,363
PERS 2/3	\$93,154	.009834%	\$(979,625)

Note 8 – Risk Management

A. Interlocal Government Agreement for Insurance Services

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 72 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$25,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000

Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2022, written notice must be in possession of the Pool by April 30, 2022). 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.

Unemployment Compensation

The District is on a reimbursable contract with the State Employment Security Department (ESD) which is a form of self-insurance for unemployment compensation claims. The ESD is the claims manager for all unemployment claims filed.

Note 9 – Subsequent Events

1. NPDES Permit Administrative Appeals. On January 29, 2021, the District was issued National Pollution Discharge Elimination System Waste Discharge Permit No. WA0029556 (NPDES Individual Permit or Individual Permit) by the Washington State Department of Ecology (Ecology), authorizing discharge of treated wastewater from its wastewater treatment plant (WWTP) to the Strait of Georgia. New limits and planning requirements pertaining to discharge of Total Inorganic Nitrogen (TIN) were included in the NPDES Individual Permit (TIN Limits). Two administrative appeals were timely filed with the Washington State Pollution Control Hearings Board (PCHB) challenging the new TIN Limits in the District's NPDES Individual Permit. **Appeal 1.** On February 26, 2021, the District filed an appeal to the PCHB claiming, *inter alia*, that the new TIN Limits were unlawful, unreasonable, and not supported by scientific evidence, and requested that they be stricken from its NPDES Individual Permit. **Appeal 2.** On February 26, 2021, Northwest Environmental Advocates, filed an appeal to the PCHB claiming, *inter alia*, that the NPDES Individual Permit and its TIN Limits failed to comply with legal requirements to include "all known, available, and reasonable methods of preventing, controlling and treating" pollutants. **Consolidation and Status.** Appeal 1 and Appeal

2 were consolidated by the PCHB. Ecology obtained a stay of the consolidated appeals to allow time for issuance of its intended General Permit on TIN Limits. Following Ecology's issuance of a General Permit on TIN Limits on December 1, 2021, by Stipulation for Order of Dismissal, dated January 28, 2022 (Stipulation), the parties agreed that Ecology would issue the District an amended NPDES Individual Permit with Conditions S1.B and S11 removed. This would remove TIN Limits from the District's Individual Permit. Under the Stipulation, following issuance of the amended Individual Permit and expiration of the appeal period connected therewith, Northwest Environmental Advocates and Birch Bay agreed to dismiss their consolidated appeal of the District's NPDES Individual Permit. Ecology issued the amended Individual Permit on April 6, 2022 as agreed. No appeal was filed. At the request of the parties, the Board dismissed the consolidated appeal (**Appeal 1 and Appeal 2**) of the District's Individual Permit on June 9, 2022. The District's amended Individual Permit remains in place. No further action is expected on the District's amended Individual Permit.

Appeal 3. As mentioned, on December 1, 2021, Ecology issued a Puget Sound Nutrient General Permit (PSNGP or General Permit) that applies to 58 publicly owned WWTPs that discharge into Salish Sea, including the District. The District appealed the General Permit to the PCHB on December 29, 2021. Between December 22 and December 30, 2021, seven other separate appeals were also filed by affected WWTPs and three separate appeals by environmental groups or tribes. All eleven appeals of the PSNGP were consolidated by the PCHB. A pre-hearing order entered by the PCHB established and pre-hearing schedule and set a multi-week hearing on the merits for May and June of 2023. However, these hearing dates have been stricken. The appeal and pending summary judgment motion by the District were stayed by order of the Board dated August 29, 2022, pending resolution of matter no. 2 below (Court of Appeals Division 2 Case No. 56859-4-II).

Appeal 4. Under the PSNGP the District was required to apply for coverage and did so on January 26, 2022. Ecology issued to the District a letter confirming coverage under the PSNGP on February 11, 2022, under Permit No. WAG994542 with coverage effective March 1, 2022. On March 11, 2022, the District filed a second appeal with the PCHB regarding the coverage determination on General Permit No. WAG994542. The proceedings in this appeal have been continued until September 27, 2023, by order of the Board entered May 5, 2022, for the purpose of allowing Appeal 3 described above to be adjudicated first.

No damages or financial sanctions are sought from the District in any of the above appeals. The outcome of the consolidated appeals could result in a future fiscal impact to the District in the nature of additional required WWTP improvements, however, the District believes it has meritorious claims and defenses in the appeals.

2. Petition for Judicial Review and Declaratory Judgment. By superior court petition filed December 31, 2020, the District is one of four municipal petitioners seeking declaratory relief from three related rules adopted by Ecology without undertaking required rulemaking processes. These rules established a new dissolved oxygen (DO) standard for Puget Sound, determined the extent of DO impairment and causation of that impairment, and determined imposition of new TIN Limits against municipal WWTPs throughout Puget Sound, all without undertaking rulemaking processes required by the Washington Administrative Procedures Act (APA). On January 13, 2022, the Thurston County Superior Court entered an Order Granting Petition for Judicial Review and Declaratory Judgment. Ecology filed an appeal with Division 2 of the Court of Appeals under Case No. 56859-4-II, which is pending. All briefs are submitted and the matter is awaiting scheduling of oral argument.

No damages or financial sanctions are sought against any party, and the District does not expect any direct adverse fiscal impact.

3. Chapter 11 Reorganization. Whisper Lake Development, Inc. (Whisper Lake), a developer with whom the District had an outstanding Developer Extension Agreement, filed for Chapter 11 bankruptcy

reorganization (Reorganization) November 10, 2021. The District entered into a revised developer extension agreement with Whisper Lake January 13, 2022 and secured an additional deposit via an assignment of savings to cover any additional District costs. Neither the additional deposit nor the revised developer extension agreement was contested by anyone in the Chapter 11 proceedings. The District has accepted the Whisper Lake project January 27, 2022, and establishment of a reimbursement agreement applicable to other benefitted parcels awaits a request from the owner. The District does not anticipate an adverse fiscal impact.

4. Insurance Claim Incidents. The Water Sewer Risk Management Pool is managing the two following claim incidents and the District's liability is limited to a deductible of \$10,000 per claim. On November 15, 2021 during a King Tide and unusually large rain event, a Condominium complex experienced flooding in a number of units and a shared space. The Condominium Home Owner's Association filed a claim against the District for damages. The Risk Pool has authorized hiring an Engineer Consultant and that consultant is currently looking at possible solutions. Separately, on August 12, 2022, a water main broke and pushed a large amount of water into a customer's yard, causing a portion of a hillside to slide away. The Risk Pool authorized hiring an Engineer Consultant and a solution has been engineered. The fix is waiting for favorable weather for a contractor to repair. The District does not anticipate more fiscal impact than the deductibles in either claim.

5. On October 27, 2022 the Board of Commissioners rescinded COVID-19 resolution 760 Declaration of Emergency.

Birch Bay Water & Sewer District
Notes to the Financial Statements
For the Year Ended December 31, 2020

Note 1 - Summary of Significant Accounting Policies

The Birch Bay Water & Sewer District was incorporated on May 2, 1968 and operates under the laws of the state of Washington applicable to a Water and Sewer District (Title 57 RCW). The District is a proprietary special purpose local government and provides water and sewer services to the general public and is supported primarily through service fees and utility local improvement assessments.

The District reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements (see *Notes to the Financial Statements*).
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 4 - Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 15 days and is payable upon separation or retirement. Sick leave may be accumulated up to 75 days for District employees in the Management Group. District employees in the Employee Contract are eligible to receive 50% sick leave payout in excess of 480 hours. Upon separation or retirement employees receive a percentage of unused sick leave paid into a Voluntary Employee Beneficiary Association (VEBA) account. Payments are recognized as expenditures when paid. If the District employee in the Employee Contract worked twenty years or more, the rate is 67.5% payable into a VEBA account. Employees in the Management Group are eligible to receive 45% of sick leave payout into a VEBA account.

F. Long-Term Debt

See Note 3 – Long Debt Service Requirements (Formerly Debt Service Requirements).

Note 2 - Budget Compliance

Budgets are not required by statute for Water-Sewer Districts. It has been the policy of the Board of Commissioners that they adopt an annual operating budget and Capital Improvement Plan (CIP) to direct District spending each calendar year. The District adopts annual appropriated budgets for the water & sewer fund. These budgets are appropriated at the function level. This function level budget constitutes the legal authority for expenditures at that level. Annual appropriations for these functions lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated		
	Amounts	Actual Expenses	Variance
Operations	\$3,789,899	\$3,478,298	\$311,601
Capital	\$2,112,068	\$1,012,043	\$1,100,025
Debt	\$546,612	\$546,612	\$0
Total	\$6,448,579	\$5,036,953	\$1,411,626

All CIP is included in the Annual Budget document and budget expenditures are managed during the year on a CIP level.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

On March 26, 2020 the Board of Commissioners declared a local civil emergency in response to the COVID-19 pandemic. On that same date the Board of Commissioners resolved to suspend late fees and water shut offs for delinquent balances. At this time, customer late fees and water shut offs continue to be suspended. There are approximately 90 customers delinquent on their accounts specific to the COVID time period and that total balance is \$34,000.

Substantially, all District employees have continued to work during the pandemic, in either remote or in-person capacity. On April 9, 2020 the Board of Commissioners resolved to allow employees with no sick leave balance to go negative during the pandemic. That resolution states that the replenishment of their sick leave will occur during regular monthly accruals per the employment contract or if not repaid at the point of separation there would be a payroll deduction. As of the date of this report, all employees have positive sick leave balances. The Board of Commissioners resolved in two separate resolutions, 1/12/2021 and 4/22/2021, to follow the Families First Coronavirus Act which mainly extended 80 hours of emergency sick leave due to COVID related issues to the employees.

Currently, the District is still under the local civil emergency. 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.

Note 4 – Deposits and Investments

Investments are reported at cost. Deposits and investments by type at December 31, 2020 are as follows:

Type of deposit or investment	District's own deposits and investments
Bank Deposits	\$ 261,232.70
L.G.I.P.	\$5,226,714.76
Total	\$5,487,947.46

It is the District's policy to invest all District defined reserve funds and temporary cash surpluses. The District will invest its funds in a manner that preserves capital and ensures the protection of investment principal, allows for its liquidity needs, and achieves the highest investment return consistent with the primary objectives of safety and liquidity. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is recorded in the District's fund.

Investments in the State Local Government Investment Pool (LGIP)

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

Custodial Credit Risk

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 would not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are mostly 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).

All investments are insured, registered or held by the District or its agent in the government's name.

Note 5 – Long-Term Debt (formerly Debt Service Requirements)

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the District and summarizes the District's debt transactions for year ended December 31, 2020.

The debt service requirements for Public Works Board Trust Fund loans are as follows:

	Principal	Interest	Total pymt
2021	\$520,050	\$41,466	\$561,516
2022	\$520,050	\$39,611	\$559,661
2023	\$520,050	\$35,438	\$555,488
2024	\$520,050	\$31,265	\$551,315
2025	\$358,163	\$27,092	\$385,256
2026-2030	\$1,077,058	\$90,817	\$1,167,875
2031-2035	\$721,336	\$31,690	\$753,026
2036-2040	\$193,895	\$4,324	\$198,219
	\$4,430,651	\$301,704	\$4,732,355

In April 2018, the District received a Washington State Public Works Board Loan (PC18-96103-001) for an "Automated Meter Reading System" project that is still in progress. The District began loan repayments in June 2019. The amortization schedule for that loan is estimated. The project is expected to be completed in 2023.

Note 6 – OPEB Plans

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

insured separately. The District had 8 active plan members and 2 retired plan members as of December 31, 2020. As of June 30, 2020, the District's total OPEB liability was \$628,699 as calculated using the alternative measurement method. The District contributed \$130,767.20 to the plan for the year ended December 31, 2020.

Note 7 – Pension Plans

State Sponsored Pension Plans

Substantially all District full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

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

At June 30, 2020, the District's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

Plan	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$56,368	.00778%	\$274,605
PERS 2/3	\$92,860	.010080%	\$128,917
Total			\$403,523

Note 8 – Risk Management

Property/Liability/Fidelity Risk Pool

The (district) is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 ((\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau))
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000

Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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 month 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.

Unemployment Compensation

The District is on a reimbursable contract with the State Employment Security Department (ESD) which is a form of self-insurance for unemployment compensation claims. The ESD is the claims manager for all unemployment claims filed.

Note 9 – Other Disclosures

1. NPDES Permit Administrative Appeals. On January 29, 2021, the District was issued National Pollution Discharge Elimination System Waste Discharge Permit No. WA0029556 (NPDES Permit) by the

Washington State Department of Ecology (Ecology), authorizing discharge of treated wastewater from its wastewater treatment plant (WWTP) to the Strait of Georgia. New limits and planning requirements pertaining to discharge of Total Inorganic Nitrogen (TIN) were included in the NPDES Permit (TIN Limits). Two administrative appeals were timely filed with the Washington State Pollution Control Hearings Board (PCHB) challenging the new TIN Limits. **Appeal 1.** On February 26, 2021 the District filed an appeal to the PCHB claiming, *inter alia*, that the new TIN Limits were unlawful, unreasonable, and not supported by scientific evidence, and requested that they be stricken from its NPDES Permit.

Appeal 2. On February 26, 2021, Northwest Environmental Advocates, filed an appeal to the PCHB claiming, *inter alia*, that the NPDES Permit and its TIN Limits failed to comply with legal requirements to include “all known, available, and reasonable methods of preventing, controlling and treating” pollutants.

Consolidation and Status. Appeal 1 and Appeal 2 were consolidated by the PCHB, are very early in the process, and awaiting decision on a motion to continue pending issuance by Ecology of a “General Permit” which would allegedly supplant TIN Limits in the NPDES Permit. No damages or financial sanctions are sought from the District in the consolidated appeals. The outcome of the consolidated appeals and/or future General Permit could result in a future fiscal impact to the District in the nature of additional required WWTP improvements, however, the District believes it has meritorious claims and defenses in the appeals.

2. Petition for Judicial Review and Declaratory Judgment. By superior court petition filed December 31, 2020, the District is one of four municipal petitioners seeking declaratory relief from three related rules adopted by Ecology without undertaking required rulemaking processes. These rules established a new dissolved oxygen (DO) standard for Puget Sound, determined the extent of DO impairment and causation of that impairment, and determined imposition of new TIN Limits against municipal WWTPs throughout Puget Sound, all without undertaking rulemaking processes required by the Washington Administrative Procedures Act (APA). This petition for judicial review and declaratory judgment against Ecology is in the early stages. No damages or sanctions are sought against any party, and the outcome is not anticipated to result in any direct adverse fiscal impact to the District.

**Birch Bay Water and Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
263.88	PW-04-691-005	7/1/2024	491,987	-	122,997	368,990
263.88	PW-03-691-PRE-126	7/1/2024	21,476	-	5,369	16,107
263.88	PW-04-691-004	7/1/2024	134,081	-	33,521	100,560
263.88	PW-05-691-004	7/1/2025	180,983	-	36,197	144,786
263.88	PW-06-962-008	7/1/2026	799,161	-	133,194	665,967
263.88	PC12-951-076	6/1/2031	1,199,157	-	74,947	1,124,210
263.88	PC-13-961-015	6/1/2031	890,116	-	74,176	815,940
263.88	PC-18-96103-001	6/1/2038	713,688	393,692	39,649	1,067,731
259.12	Compensated Absences	1/1/2022	112,278	155,190	160,621	106,847
264.30	Pension Liability	1/1/2022	403,523	-	310,160	93,363
264.40	OPEB	1/1/2022	628,669	-	92,249	536,420
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,575,119	548,882	1,083,080	5,040,921
Total Liabilities:			5,575,119	548,882	1,083,080	5,040,921

**Birch Bay Water and Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2020**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	COMPENSATED ABSENCES		85,469	153,724	126,915	112,278
264.30	PENSION LIABILITY		352,550	50,973	-	403,523
264.40	OPEB LIABILITIES		546,967	81,702	-	628,669
263.88	PW-04-691-005	7/1/2024	614,984	-	122,997	491,987
263.88	PW-03-691-PRE-126	7/1/2024	26,845	-	5,369	21,476
263.88	PW-04-691-004	7/1/2024	167,602	-	33,521	134,081
263.88	PW-05-691-004	7/1/2025	217,180	-	36,197	180,983
263.88	PW-06-962-008	7/1/2026	932,355	-	133,194	799,161
263.88	PC-12-951-076	6/1/2031	1,274,104	-	74,947	1,199,157
263.88	PC-13-961-015	6/1/2032	964,292	-	74,176	890,116
263.88	PC-18-96103-001	6/1/2038	344,789	393,288	24,389	713,688
Total Revenue and Other (non G.O.) Debt/Liabilities:			5,527,137	679,687	631,705	5,575,119
Total Liabilities:			5,527,137	679,687	631,705	5,575,119

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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