



Office of the Washington State Auditor  
Pat McCarthy

# **Financial Statements Audit Report**

## **Douglas County Sewer District No. 1**

**For the period January 1, 2019 through December 31, 2021**

*Published July 3, 2023*

Report No. 1032839



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

July 3, 2023

Board of Commissioners  
Douglas County Sewer District No. 1  
East Wenatchee, Washington

**Report on Financial Statements**

Please find attached our report on Douglas County Sewer District No. 1'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

***Americans with Disabilities***

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

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## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Douglas County Sewer District No. 1 January 1, 2019 through December 31, 2021

#### **2021-001    The District did not have adequate internal controls over financial statement preparation to ensure accurate financial reporting.**

##### *Background*

State and federal agencies, the Board of Commissioners, and the public rely on information included in financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the District's financial reporting is reliable and its financial statements are accurate.

The District prepares its financial statements in accordance with generally accepted accounting principles (GAAP).

Our audit found deficiencies in internal controls over accounting and financial reporting that affected the District's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls as a finding.

##### *Description of Condition*

The District received about \$2 million in grant revenue both in 2020 and 2021 from the Washington State Department of Commerce for the Wenatchi Landing Sewer Extension project. Our audit found the District did not have effective internal controls in place to ensure the grant revenues were accrued in the same period as the expenses, which is required under GAAP.

##### *Cause of Condition*

The District does not typically receive grant funding, and management did not know about the requirement to accrue grant revenues received on a reimbursement basis to the same period as the expenses that were reimbursed.

### ***Effect of Condition***

The District reported \$2 million in grant revenue in 2021. However, about \$1.6 million was reimbursements for expenses incurred in 2020, so they should have been reported in 2020.

The District corrected this error.

### ***Recommendation***

We recommend the District improve the effectiveness of its internal controls over preparing the financial statements to ensure it reports all grant revenue received as a reimbursement in the same period as the reimbursed expenses.

### ***District's Response***

Grant funding was a new revenue source for the District. District accounting staff was unaware of the accounting principles for grant reimbursement when the expenses are paid in one year and reimbursed in the following year.

The District concurs with the Auditor's description and cause of the condition, has corrected the error, and will account for grant revenue received as a reimbursement in the same period as the expenses were paid in similar situations in the future.

The District appreciates the cooperation and pleasant manner of the Audit Team during the course of the 3-year audit.

### ***Auditor's Remarks***

We appreciate the District's correction of the error noted above and thank the District for its cooperation and assistance during the audit. We will review the changes to the District's internal controls during our next audit.

### ***Applicable Laws and Regulations***

RCW 43.09.200 – Local government accounting – uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

*Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1, Accounting Principles and Internal Control.

*Government Auditing Standards*, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material

weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

## 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*

#### **Douglas County Sewer District No. 1 January 1, 2019 through December 31, 2021**

Board of Commissioners  
Douglas County Sewer District No. 1  
East Wenatchee, 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 Douglas County Sewer District No. 1, as of and for the years ended December 31, 2021, 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 June 13, 2023.

### **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.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 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 audits, 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*.

## **DISTRICT'S RESPONSE TO FINDINGS**

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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

June 13, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Douglas County Sewer District No. 1 January 1, 2019 through December 31, 2021**

Board of Commissioners  
Douglas County Sewer District No. 1  
East Wenatchee, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

We have audited the accompanying financial statements of Douglas County Sewer District No. 1, as of and for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Douglas County Sewer District No. 1, as of December 31, 2021, 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.

### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management 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, and 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 as a whole 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
- 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.

## 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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 June 13, 2023 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 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, appearing to read "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

June 13, 2023

## **FINANCIAL SECTION**

### **Douglas County Sewer District No. 1 January 1, 2019 through December 31, 2021**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2021  
Management's Discussion and Analysis – 2020  
Management's Discussion and Analysis – 2019

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2021  
Statement of Net Position – 2020  
Statement of Net Position – 2019  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2021  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2020  
Statement of Revenues, Expenses and Changes in Fund Net Position – 2019  
Statement of Cash Flows – 2021  
Statement of Cash Flows – 2020  
Statement of Cash Flows – 2019  
Notes to Financial Statements – 2021  
Notes to Financial Statements – 2020  
Notes to Financial Statements – 2019

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2021  
2020 and 2019  
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021, 2020 and 2019

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2021**

The Mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

**DISCUSSION OF FINANCIAL STATEMENTS**

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Fund Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deferred inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Fund Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2021

**CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31**

	12/31/2021	12/31/2020	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 16,293,067	\$ 15,700,630	\$ 592,437	3.77%
CAPITAL ASSETS, NET	\$ 47,091,512	\$ 43,340,286	\$ 3,751,226	8.66%
DEFERRED OUTFLOWS	\$ 104,876	\$ 89,740	\$ 15,136	16.87%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 63,489,455</u>	<u>\$ 59,130,655</u>	<u>\$ 4,358,799</u>	<u>7.37%</u>
TOTAL LIABILITIES	\$ 11,189,963	\$ 12,367,403	\$ (1,177,440)	-9.52%
DEFERRED INFLOWS	\$ 752,812	\$ 118,757	\$ 634,055	533.91%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 11,942,775</u>	<u>\$ 12,486,160</u>	<u>\$ (543,385)</u>	<u>-4.35%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 37,482,803	\$ 33,442,309	\$ 4,040,494	12.08%
RESTRICTED	\$ 2,973,388	\$ 2,371,289	\$ 602,099	25.39%
UNRESTRICTED	\$ 11,090,489	\$ 10,830,897	\$ 259,592	2.40%
TOTAL NET POSITION	<u>\$ 51,546,680</u>	<u>\$ 46,644,495</u>	<u>\$ 4,902,185</u>	<u>10.51%</u>

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

	12/31/2021	12/31/2020	Difference	Percentage of
OPERATING REVENUE	\$ 6,923,605	\$ 6,237,240	\$ 686,365	11.00%
NON-OPERATING REVENUE	\$ 354,940	\$ 3,611,773	\$ (3,256,833)	-90.17%
ULID ASSESSMENTS				
GAIN (LOSS) ON INVESTMENTS REALIZED		\$ 7,052		
GAIN (LOSS) ON CAPITAL ASSET DISPOSITION		\$ 25,955		
INTEREST EARNED	\$ 16,694	\$ 103,252	\$ (86,558)	-83.83%
TOTAL REVENUE	<u>\$ 7,295,239</u>	<u>\$ 9,985,272</u>	<u>\$ (2,690,033)</u>	<u>-26.94%</u>
PLANT OPERATIONS	\$ 2,295,304	\$ 2,090,231	\$ 205,073	9.81%
MAINTENANCE	\$ 111,327	\$ 84,631	\$ 26,696	31.54%
DEPRECIATION	\$ 1,574,588	\$ 1,437,594	\$ 136,994	9.53%
INTEREST EXPENSES	\$ 331,023	\$ 336,126	\$ (5,103)	-1.52%
TOTAL EXPENSES	<u>\$ 4,312,241</u>	<u>\$ 3,948,582</u>	<u>\$ 363,659</u>	<u>9.21%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	\$ 2,982,998	\$ 6,036,691	\$ (3,053,692)	-50.59%
CAPITAL CONTRIBUTIONS	\$ 1,919,187	\$ 548,072	\$ 1,371,114	250.17%
CHANGE IN NET POSITION	\$ 4,902,185	\$ 6,584,763	\$ (1,682,578)	-25.55%
BEGINNING NET POSITION	\$ 46,644,497	\$ 40,059,734	\$ 6,584,763	16.44%
APPLICATION OF NEW ACCOUNTING-GASB	\$ -	\$ -	\$ -	
ENDING NET POSITION	<u>\$ 51,546,682</u>	<u>\$ 46,644,497</u>	<u>\$ 4,902,186</u>	<u>10.51%</u>

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2021**

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS**

The District's financial position continues to strengthen over the year ended December 31, 2021.

Total assets and deferred outflows increased by \$4,358,799 or 7.37% (\$59,130,655 for 2020 vs. \$63,489,455 for 2021). Net Capital Assets increased by \$3,751,226 or 8.66% (\$43,340,286 for 2020 vs. \$47,091,512 for 2021) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$4,902,185 or 10.51% (\$46,644,495 for 2020 vs. \$51,546,680 for 2021). This increase is largely due to an increase in cash reserves and completion of capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$543,385 or 4.35% (\$12,486,160 for 2020 vs. \$11,942,775 for 2021). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues increased by \$686,365 or 11.1% (\$6,237,240 for 2020 vs. \$6,923,605 for 2021). The sewer service component of operating revenues increased by 2.82% (\$144,173) over 2020. The minimal increase was due to the delay in implementing a scheduled rate due to COVID challenges. The rate increase that was scheduled for October 1, 2020 was delayed until January 1, 2022, at which time the rate increased from \$43.00 per Equivalent Residential Unit (ERU) to \$45.50 per ERU per month. The connection fee component of operating revenues increased by 49% (\$551,124) over 2020 largely due to connection of a large industrial customer purchasing the connection permit for the 1st of 5 planned buildings. Total new connections to the sewer system increased 8.6% (174 for 2020 vs. 189 for 2021).

Operating expenses increased by \$327,191 or 9.05% (\$3,612,456 for 2020 vs. \$3,939,647 for 2021), comprised of increased costs for treatment chemicals, lift station maintenance and repair, and state business and occupation taxes.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as

<b>NET CAPITAL ASSETS</b>				
	12/31/2021	12/31/2020	Difference	Percentage of Change
NET CAPITAL ASSETS:				
WATER RIGHTS	\$ 6,143	\$ 6,143	\$ -	0.00%
LAND	\$ 69,588	\$ 69,588	\$ -	0.00%
COLLECTION SYSTEM	\$ 29,576,636	\$ 25,318,708	\$ 4,257,928	16.82%
PLANT BUILDINGS & STRUCTURES	\$ 16,650,089	\$ 17,331,200	\$ (681,110)	-3.93%
MACHINERY & EQUIPMENT	\$ 576,286	\$ 550,134	\$ 26,152	4.75%
CONSTRUCTION IN PROGRESS	\$ 212,770	\$ 64,513	\$ 148,257	229.81%
TOTAL CAPITAL ASSETS, NET	\$ 47,091,512	\$ 43,340,286	\$ 3,751,226	8.66%

\* Beginning balances of Water Rights and Land were reclassified



**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2021**

Major additions for 2021 include:

Developer Contributed Line	\$ 1,919,187
Kentucky View LS Phase II	\$ 1,732,785
Batterman Lift Station - Subsequent year	\$ 883,758
Wenatchi Landing Sewer Extension - Subsequent year	\$ 192,897
WWTP Small Works Safety Improvements Project	\$ 167,972
2020 International Dump Truck	\$ 148,561
Total	<u>\$ 5,045,160</u>

The District's 2022 Capital Budget plans for investment of **\$2,436,106**. Major projects are listed below:

Collection System

Lexington to Lawler Avenue Sewer Line Replacement	\$ 344,760
Summerplace Lift Station Replacement - Design & Planning	\$ 318,000
Odor Control Chemical Dosing Systems at 4 Lift Stations	<u>\$ 250,000</u>
	<u>\$ 912,760</u>

Treatment Plant

WWTP Storage Structure and Security Gate / Cameras	\$ 680,000
WWTP SNDR Tower Refurbishment	\$ 360,400
WWTP Operations Building Bathroom/Locker Room Remodel	<u>\$ 100,000</u>
	<u>\$ 1,140,400</u>

As of December 31, 2021, the District has the following principal debt balances:

Revenue Bonds	\$ 8,425,000
CERB Loan	<u>\$ 1,020,000</u>
	<u>\$ 9,445,000</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$163,709. In all, debt principal totals \$9,608,709. Debt repayment schedules go out to 2041. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

Refer to the **Notes to the Financial Statements** for more detail.

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

The District was the recipient of a \$4,000,000 grant from the Washington State Capital Budget as of July 1, 2019. Grant funds paid for to extend sewer service to an undeveloped area to support economic growth in the region. The Wenatchi Landing Sewer Extension Project was substantially complete and placed into service by the end of 2020. Remaining funds of approximately \$150,000 will be utilized to secure a location for a lift station to serve a portion of the Wenatchi Landing area. Availability of the funds sunsets on June 30, 2023.

The District secured a Community Economic Revitalization Board loan and grant combination to replace the Batterman Lift Station to serve expanding businesses in the industrial area near the Pangborn Memorial Airport. The loan amount is \$1,020,000. The grant amount is \$159,105. The loan is at 2% for a 20-year term.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2021**

The District completed a formal rate study in 2015 with a 6-year future rate recommendation. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. Partially due to implementation of study recommendations, cash reserves of the District have increased 57%, or \$5,343,152, since 2015. The District anticipates a future rate study will be conducted in 2022 or 2023.

Construction of new housing developments is strong locally, and the District anticipates continued strong connection fee revenue in 2022 due to a very tight, high-demand housing market, and a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 234 lots for residential, mostly single-family, development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for multiple multi-unit developments that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 20 years will provide strong future revenues for the District.

Growth in connection fee revenue for 2021 was budgeted for a conservative .75% growth rate, equating to 71 permits totaling \$390,358. Actual activity resulted in 189 permits totaling \$1,675,560 from mostly single-family residential development and connection of a portion of a new data center development.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update anticipated to begin soon.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd. Current treatment volume is 1.43 mgd; 48% of the newly-rated capacity.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2020**

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

**DISCUSSION OF FINANCIAL STATEMENTS**

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deferred inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2020

**CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31**

	12/31/2020	12/31/2019	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 15,700,630	\$ 13,503,400	\$ 2,197,229	16.27%
CAPITAL ASSETS, NET	\$ 43,340,286	\$ 39,662,120	\$ 3,678,166	9.27%
DEFERRED OUTFLOWS	\$ 89,740	\$ 82,335	\$ 7,404	8.99%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 59,130,655</u>	<u>\$ 53,247,856</u>	<u>\$ 5,882,800</u>	<u>11.05%</u>
TOTAL LIABILITIES	\$ 12,367,403	\$ 12,999,233	\$ (631,829)	-4.86%
DEFERRED INFLOWS	\$ 118,757	\$ 188,891	\$ (70,135)	-37.13%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 12,486,160</u>	<u>\$ 13,188,124</u>	<u>\$ (701,964)</u>	<u>-5.32%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 33,442,309	\$ 28,489,875	\$ 4,952,434	17.38%
RESTRICTED	\$ 2,371,289	\$ 2,351,447	\$ 19,842	0.84%
UNRESTRICTED	\$ 10,830,897	\$ 9,218,410	\$ 1,612,487	17.49%
TOTAL NET POSITION	<u>\$ 46,644,495</u>	<u>\$ 40,059,732</u>	<u>\$ 6,584,763</u>	<u>16.44%</u>

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2020**

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

	12/31/2020	12/31/2019	Difference	Percentage of
OPERATING REVENUE	\$ 6,237,240	\$ 6,068,957	\$ 168,282	2.77%
NON-OPERATING REVENUE	\$ 3,611,773	\$ 8,056	\$ 3,603,718	44735%
GAIN (LOSS) ON INVESTMENTS REALIZED	\$ 7,052	\$ 30,613	\$ (23,561)	-77%
GAIN (LOSS) ON CAPITAL ASSET DISPOSITIO	\$ 25,955	\$ -	\$ 25,955	0%
INTEREST EARNED	\$ 103,252	\$ 288,709	\$ (185,457)	-64.237%
<b>TOTAL REVENUE</b>	<b>\$ 9,985,273</b>	<b>\$ 6,396,335</b>	<b>\$ 3,588,938</b>	<b>56.109%</b>
PLANT OPERATIONS	\$ 2,090,231	\$ 2,113,184	\$ (22,952)	-1.086%
MAINTENANCE	\$ 84,631	\$ 96,946	\$ (12,315)	-12.703%
DEPRECIATION	\$ 1,437,594	\$ 1,377,782	\$ 59,811	4.341%
INTEREST EXPENSES	\$ 336,126	\$ 369,814	\$ (33,688)	-9.110%
<b>TOTAL EXPENSES</b>	<b>\$ 3,948,582</b>	<b>\$ 3,957,726</b>	<b>\$ (9,144)</b>	<b>-0.231%</b>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 6,036,691	\$ 2,438,609	\$ 3,598,082	147.547%
CAPITAL CONTRIBUTIONS	\$ 548,072	\$ 921,607	\$ (373,535)	-40.531%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 6,584,763	\$ 3,360,215	\$ 3,224,547	95.963%
EXTRAORDINARY ITEMS				
CHANGE IN NET POSITION	\$ 6,584,763	\$ 3,360,215	\$ 3,224,547	95.963%
BEGINNING NET POSITION	\$ 40,059,734	\$ 36,699,518	\$ 3,360,215	9.156%
ENDING NET POSITION	<b>\$ 46,644,497</b>	<b>\$ 40,059,734</b>	<b>\$ 6,584,763</b>	<b>16.437%</b>

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS**

The District's financial position continues to strengthen over the year ended December 31, 2020.

Total assets and deferred outflows increased by \$5,882,799 or 11.05% (\$53,247,856 for 2019 vs. \$59,130,655 for 2020). Net Capital Assets increased by \$3,678,166 or 9.27% (\$39,662,120 for 2019 vs. \$43,340,286 for 2020) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$6,584,763 or 16.44% (\$40,059,732 for 2019 vs. \$46,644,494 for 2020). This increase is largely due to an increase in cash reserves, grant funds receivable, and completion of capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$701,964 or 5.32% (\$13,188,124 for 2019 vs. \$12,486,160 for 2020). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues increased by \$168,282 or 2.77% (\$6,068,957 for 2019 vs. \$6,237,240 for 2020). The sewer service component of operating revenues increased by 7.02% (\$334,930) over 2019 due in part to the implementation of a multi-year rate increase schedule adopted in June of 2015. Effective on October 1, 2019, sewer rates increased by 6.2% from \$40.50 per Equivalent Residential Unit (ERU) to \$43.00 per ERU per month. The connection fee component of operating revenues decreased by -11.31% (\$143,375) over 2019 largely due to 174 additional connections to the sewer system.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2020**

Non-operating revenues increased by \$3,603,718 or 44735% (\$8,056 for 2019 vs. \$3,611,773 for 2020) in large part due to state grant funds in the amount of \$2,003,289 received, and state grant funds receivable in the amount of \$1,598,049, for the Wenatchi Landing Sewer Extension Project to extend service for economic development.

Operating expenses increased minimally by \$24,541 or 0.68% (\$3,587,915 for 2019 vs. \$3,612,456 for 2020), comprised of increased costs for a bi-annual audit and commercial insurance, which were offset by decreased costs for general engineering services, safety plan implementation equipment and supplies, lift station maintenance and repair, and state business and occupation taxes.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as

	<b>NET CAPITAL ASSETS</b>			
	12/31/2020	12/31/2019	Difference	Percentage of Change
NET CAPITAL ASSETS:				
LAND	\$ 75,731	\$ 75,731	\$ -	0.00%
COLLECTION SYSTEM	\$ 25,318,708	\$ 20,538,735	\$ 4,779,973	23.27%
PLANT BUILDINGS & STRUCTURES	\$ 17,331,200	\$ 18,085,691	\$ (754,491)	-4.17%
MACHINERY & EQUIPMENT	\$ 550,134	\$ 523,009	\$ 27,125	5.19%
CONSTRUCTION IN PROGRESS	\$ 64,513	\$ 438,955	\$ (374,441)	-85.30%
TOTAL CAPITAL ASSETS, NET	<u>\$ 43,340,286</u>	<u>\$ 39,662,120</u>	<u>\$ 3,678,166</u>	<u>9.27%</u>

Major additions for 2020 include:

Wenatchi Landing Sewer Extension	\$ 1,666,931
Batterman Lift Station Replacement - Funding Match	\$ 615,575
Developer Contributed Line	\$ 548,072
4th Street Interceptor (S. Lyle Ave to Mason Ave)	\$ 348,358
Headworks Building Roof Replacement/Upgrades	\$ 72,598
Total	<u>\$ 3,251,534</u>

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2020**

The District's 2021 Capital Budget plans for investment of **\$3,968,628**. Major projects are listed below:

Collection System

KVLS Phase 2 Interceptor	\$ 2,125,500
SR 28 Interceptor in coordination with WSDOT Upgrades	\$ 42,750
Lexington to Lawler Avenue Interceptor	\$ 38,250
Legacy Estates Forcemain - Air Release Vault Installation	\$ 35,000
10th Street NE Interceptor Replacement	\$ 32,500
Kentucky Avenue Interceptor	\$ 26,628
	<u>\$ 2,300,628</u>

Treatment Plant

Storage Structure, Potable Water Ext, and Irrigation Connect	\$ 760,000
Computer & Control Systems Upgrade & Programming	\$ 70,000
	<u>\$ 830,000</u>

As of December 31, 2020, the District has the following principal debt balances:

Revenue Bonds	\$ 9,645,000
Public Works Trust Fund Loans	\$ -
	<u>\$ 9,645,000</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$252,977. In all, debt principal totals \$9,897,977. Debt repayment schedules go out to 2035. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

Refer to the **Notes to the Financial Statements** for more detail.

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

The District was the recipient of a \$4,000,000 grant from the Washington State Capital Budget as of July 1, 2019. Grant funds paid for to extend sewer service to an undeveloped area to support economic growth in the region. The Wenatchi Landing Sewer Extension Project was substantially complete and placed into service by the end of 2020. Remaining funds of approximately \$150,000 will be utilized to secure a location for a lift station to serve a portion of the Wenatchi Landing area. Availability of the funds sunsets on June 30, 2023.

The District completed a formal rate study in 2015. Rate study recommendations were adopted in June of 2015 became effective on October 1, 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. In addition, the study was based on criteria to maintain the District's cash reserves, begin to formally fund system reinvestment, and entry into the bond market in 2016 for capital projects.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2020**

Based on the rate study recommendations, annual sewer rate increases in the amount of \$2.50 per month per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from \$2,642 to \$5,448 per Equivalent Residential Unit.

Construction of new housing developments is strong locally, and the District anticipates continued strong connection fee revenue in 2020 (174 connection permits totaling \$1,124,436 in 2020) due to a very tight, high-demand housing market, and a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 155 lots for residential, mostly single-family, development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for a 102-unit development to be constructed in 2020 that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 20 years will provide strong future revenues for the District.

Growth in connection fee revenue is budgeted for a conservative .75% growth rate in 2021, equating to 71 permits totaling \$390,358.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2021.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd. Current treatment volume is 1.43 mgd; 48% of the newly-rated capacity.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.



**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

The mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

**DISCUSSION OF FINANCIAL STATEMENTS**

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deferred inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules 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.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

**CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31**

	12/31/2019	12/31/2018	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 13,503,400	\$ 12,731,628	\$ 771,772	6.06%
CAPITAL ASSETS, NET	\$ 39,662,120	\$ 38,397,299	\$ 1,264,821	3.29%
DEFERRED OUTFLOWS	\$ 82,335	\$ 76,927	\$ 5,408	7.03%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 53,247,856</u>	<u>\$ 51,205,854</u>	<u>\$ 2,042,001</u>	<u>3.99%</u>
TOTAL LIABILITIES	\$ 12,999,233	\$ 14,342,106	\$ (1,342,874)	-9.36%
DEFERRED INFLOWS	\$ 188,891	\$ 164,232	\$ 24,660	15.02%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 13,188,124</u>	<u>\$ 14,506,338</u>	<u>\$ (1,318,214)</u>	<u>-9.09%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 28,489,875	\$ 25,990,786	\$ 2,499,089	9.62%
RESTRICTED	\$ 2,351,447	\$ 2,392,815	\$ (41,369)	-1.73%
UNRESTRICTED	\$ 9,218,410	\$ 8,315,915	\$ 902,495	10.85%
TOTAL NET POSITION	<u>\$ 40,059,732</u>	<u>\$ 36,699,516</u>	<u>\$ 3,360,215</u>	<u>9.16%</u>

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

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

	12/31/2019	12/31/2018	Difference	Percentage of
OPERATING REVENUE	\$ 6,068,957	\$ 5,304,581	\$ 764,376	14.410%
NON-OPERATING REVENUE	\$ 8,056	\$ 5,131	\$ 2,924	56.995%
GAIN (LOSS) ON INVESTMENTS REALIZED	\$ 30,613	\$ -	\$ 30,613	0.000%
INTEREST EARNED	\$ 288,709	\$ 208,858	\$ 79,851	38.232%
<b>TOTAL REVENUE</b>	<b>\$ 6,396,335</b>	<b>\$ 5,518,570</b>	<b>\$ 877,765</b>	<b>15.906%</b>
PLANT OPERATIONS	\$ 2,113,184	\$ 2,043,522	\$ 69,662	3.409%
MAINTENANCE	\$ 96,946	\$ 104,990	\$ (8,044)	-7.662%
DEPRECIATION	\$ 1,377,782	\$ 1,331,085	\$ 46,697	3.508%
INTEREST EXPENSES	\$ 369,814	\$ 394,782	\$ (24,967)	-6.324%
<b>TOTAL EXPENSES</b>	<b>\$ 3,957,726</b>	<b>\$ 3,871,421</b>	<b>\$ 86,305</b>	<b>2.229%</b>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEMS	\$ 2,438,609	\$ 1,647,149	\$ 791,460	48.050%
CAPITAL CONTRIBUTIONS	\$ 921,607	\$ 467,664	\$ 453,943	97.066%
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	\$ 3,360,216	\$ 2,114,813	\$ 1,245,403	58.890%
EXTRAORDINARY ITEMS				
CHANGE IN NET POSITION	\$ 3,360,216	\$ 2,114,813	\$ 1,245,403	58.890%
BEGINNING NET POSITION	\$ 36,699,518	\$ 34,584,706	\$ 2,114,813	6.115%
ENDING NET POSITION	<b>\$ 40,059,734</b>	<b>\$ 36,699,518</b>	<b>\$ 3,360,216</b>	<b>9.156%</b>

**OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS**

The District's financial position continues to strengthen over the year ended December 31, 2019.

Total assets and deferred outflows increased by \$2,042,001 or 3.99% (\$51,205,854 for 2018 vs. \$53,247,855 for 2019). Net Capital Assets increased by \$1,264,821 or 3.29% (\$38,397,299 for 2018 vs. \$39,662,120 for 2019) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$3,360,215 or 9.15% (\$36,699,516 for 2018 vs. \$40,059,732 for 2019). This increase is largely due to an increase in cash reserves and completion of capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$1,318,214 or 9.09% (\$14,506,338 for 2018 vs. \$13,188,124 for 2019). This is largely due to a decrease in long-term debt through scheduled debt service payments.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

Operating revenues increased by \$764,376 or 14.41% (\$5,304,581 for 2018 vs. \$6,068,957 for 2019). The sewer service component of operating revenues increased by 7.85% (\$347,522) over 2018 due in part to the implementation of a multi-year rate increase schedule adopted in June of 2015. Effective on October 1, 2019, sewer rates increased by 6.2% from \$40.50 per Equivalent Residential Unit (ERU) to \$43.00 per ERU per month. The connection fee component of operating revenues increased by 49% (417,995) over 2018 largely due to 178 additional connections to the sewer system.

Operating expenses increased minimally by \$108,318 or 3.11% (\$3,479,597 for 2018 vs. \$3,587,915 for 2019), comprised of increased costs for a bi-annual audit and commercial insurance, which were offset by decreased costs for general engineering services, safety plan implementation equipment and supplies, lift station maintenance and repair, and state business and occupation taxes.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended

	<b>NET CAPITAL ASSETS</b>			
	12/31/2019	12/31/2018	Difference	Percentage of Change
NET CAPITAL ASSETS:				
LAND	\$ 75,731	\$ 75,731	\$ -	0.00%
COLLECTION SYSTEM	\$ 20,538,735	\$ 19,822,950	\$ 715,785	3.61%
PLANT BUILDINGS & STRUCTURES	\$ 18,085,691	\$ 17,611,957	\$ 473,734	2.69%
MACHINERY & EQUIPMENT	\$ 523,009	\$ 540,282	\$ (17,273)	-3.20%
CONSTRUCTION IN PROGRESS	\$ 438,955	\$ 346,379	\$ 92,575	26.73%
TOTAL CAPITAL ASSETS, NET	<u>\$ 39,662,120</u>	<u>\$ 38,397,299</u>	<u>\$ 1,264,821</u>	<u>3.29%</u>

Major additions for 2019 include:

Headworks Building Roof Replacement/Upgrades	\$ 1,115,026
Developer Contributed Line	\$ 921,607
35th Street NW Dry Sewer Mainline Install	<u>\$ 241,499</u>
Total	<u>\$ 2,278,132</u>

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

The District's 2020 Capital Budget plans for investment of \$2,913,522. Major projects are listed below:

**Collection System**

4th Street Interceptor (S. Lyle Ave to Mason Ave)	\$ 379,080
Batterman Lift Station Replacement - Funding Match	\$ 300,000
Summerplace Lift Station Replacement	\$ 150,000
Wenatchi Landing Sewer Extension - Grant Funding Fee	\$ 50,000
Misc. Lift Station Flow Monitoring & Safety Upgrades	\$ 184,000
Lexington to Lawler Sewer Mainline Replacement	\$ 22,842
	<u>\$ 1,085,922</u>

**Treatment Plant**

Storage Structure and Security Enhancements	\$ 570,000
Headworks & Grit Chamber Grating, Water to Shop	\$ 250,000
Primary Electrical Switchgear Replacement	\$ 150,000
Electrical Room HVAC, Flood Switches, Confined Space Ventilator	\$ 134,200
Computer & Control Systems Upgrade & Programming	\$ 70,000
	<u>\$ 1,174,200</u>

As of December 31, 2019, the District has the following principal debt balances:

Revenue Bonds	\$ 10,830,000
Public Works Trust Fund Loans	\$ -
	<u>\$ 10,830,000</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$342,245. In all, debt principal totals \$11,172,245. Debt repayment schedules go out to 2035. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

Refer to the **Notes to the Financial Statements** for more detail.

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

The District completed a formal rate study in 2015. Rate study recommendations were adopted in June of 2015 became effective on October 1, 2015. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. In addition, the study was based on criteria to maintain the District's cash reserves, begin to formally fund system reinvestment, and entry into the bond market in 2016 for capital projects.

**Douglas County Sewer District No. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2019**

Based on the rate study recommendations, annual sewer rate increases in the amount of \$2.50 per month per Equivalent Residential Unit are scheduled through 2020. General Facilities Charges were calculated on the Average Cost approach, which defines the connection charge as a pro rata share of existing and planned future capital investments, and increased from \$2,642 to \$5,448 per Equivalent Residential Unit.

Construction of new housing developments is strong locally, and the District anticipates continued strong connection fee revenue in 2020 (178 connection permits totaling \$1,267,811 in 2019) due to a very tight, high-demand housing market, and a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 155 lots for residential, mostly single-family, development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for a 102-unit development to be constructed in 2020 that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 20 years will provide strong future revenues for the District.

Growth in connection fee revenue is budgeted for a conservative .75% growth rate in 2020, equating to 71 permits totaling \$390,358.

As the District treatment plant and collection system infrastructure continue to age and wear, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update scheduled to be concluded by the end of 2021.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd. Current treatment volume is 1.43 mgd; 48% of the newly-rated capacity.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

## Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION**  
**December 31, 2021**

**ASSETS****Current Assets:**

Cash and Cash Equivalents	\$ 247,542
Investments	12,320,902
Receivables (Net):	
Service and Grant Revenue	458,224
Restricted Assets:	
Bond Debt Service	1,799,769
Construction II	126,171
Prepayments	128,240
<b>TOTAL CURRENT ASSETS</b>	<u>15,080,847</u>

**Noncurrent Assets:****Restricted Assets:**

Bond Debt Service Reserve	352,824
ULID Assessments	1,063
Loan Receivable - Port District PWTF	163,709
Capital Assets Not Being Depreciated	
Water Rights	6,143
Land	69,588
Construction in Progress	212,770
Capital Assets Being Depreciated	
Plant	30,281,396
Collection System	36,531,087
Machinery & Equipment	1,534,893
Less Accumulated Depreciation	<u>(21,544,366)</u>
Total Capital Assets (Net)	47,091,512

Net Pension Asset	694,623
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<b>TOTAL NONCURRENT ASSETS</b>	<u>48,303,731</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 63,384,579</u></u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows - Pension	<u>104,876</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>104,876</u></u>

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF NET POSITION  
December 31, 2021****LIABILITIES****Current Liabilities:**

Accounts/Vouchers Payable	\$ 226,695
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,372,261
Accrued Interest	170,136
Developer Extension Deposits	44,500
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,813,592</b>

**Noncurrent Liabilities:**

Compensated Absences	296,350
CERB Loan Payable	989,593
PWTF Loan Payable - Port District	81,855
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	7,942,358
Pension Liability	66,215
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>9,376,371</b>
<b>TOTAL LIABILITIES</b>	<b>11,189,963</b>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - Pension	752,812
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>752,812</b>

**NET POSITION**

Net Investment in Capital Assets	37,482,803
Restricted - Pensions	694,623
Restricted - Bond	1,799,769
Restricted - Bond Reserve	352,824
Restricted - Construction II	126,171
Unrestricted	11,090,489
<b>TOTAL NET POSITION</b>	<b>51,546,680</b>

The accompanying notes are an integral part of this statement.



## Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION**  
**December 31, 2020**

**ASSETS****Current Assets:**

Cash and Cash Equivalents	\$ 667,118
Investments	10,272,015
Short-Term Investments	
Receivables (Net):	
Service and Grant Revenue	2,037,936
Restricted Assets:	
Bond Debt Service	1,714,583
Construction II	303,882
Prepayments	97,635
<b>TOTAL CURRENT ASSETS</b>	<u>15,093,169</u>

**Noncurrent Assets:****Restricted Assets:**

Bond Debt Service Reserve	352,824
Bond Debt Service Reserve Long-Term Investments	-
Unrestricted Long-Term Investments	-
ULID Assessments	1,659
Loan Receivable - Port District PWTF	252,977
Capital Assets Not Being Depreciated	
Land	75,731
Construction in Progress	64,513
Capital Assets Being Depreciated	
Plant	30,007,046
Collection System	31,779,918
Machinery & Equipment	1,489,110
Less Accumulated Depreciation	(20,076,033)
Total Capital Assets (Net)	<u>43,340,286</u>

**TOTAL NONCURRENT ASSETS**

43,947,746

**TOTAL ASSETS**\$ 59,040,915**DEFERRED OUTFLOWS OF RESOURCES**

## Deferred Outflows - Pension

89,740

**TOTAL DEFERRED OUTFLOWS OF RESOURCES**89,740

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF NET POSITION  
December 31, 2020****LIABILITIES****Current Liabilities:**

Accounts/Vouchers Payable	\$ 892,779
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,309,268
Accrued Interest	155,544
Developer Extension Deposits	54,800
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,412,391</u>

**Noncurrent Liabilities:**

Compensated Absences	286,398
PWTF Loan Payable	-
PWTF Loan Payable - Port District	163,709
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	9,262,836
Pension Liability	242,069
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>9,955,013</u>
<b>TOTAL LIABILITIES</b>	<u><u>12,367,403</u></u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - Pension	118,757
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u><u>118,757</u></u>

**NET POSITION**

Net Investment in Capital Assets	33,442,309
Restricted - Bond	1,714,583
Restricted - Bond Reserve	352,824
Restricted - Construction II	303,882
Unrestricted	10,830,897
<b>TOTAL NET POSITION</b>	<u><u>46,644,495</u></u>

The accompanying notes are an integral part of this statement.

## Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION**  
**December 31, 2019**

**ASSETS****Current Assets:**

Cash and Cash Equivalents	\$ 204,150
Investments	9,524,972
Short-Term Investments	
Receivables (Net):	
Service Revenue	392,805
Restricted Assets:	
Bond Debt Service	1,697,001
Construction II	301,622
Prepayments	90,881
<b>TOTAL CURRENT ASSETS</b>	<u>12,211,431</u>

**Noncurrent Assets:****Restricted Assets:**

Bond Debt Service Reserve	51,824
Bond Debt Service Reserve Long-Term Investments	301,000
Unrestricted Long-Term Investments	594,799
ULID Assessments	2,101
Loan Receivable - Port District PWTF	342,245
Capital Assets Not Being Depreciated	
Land	75,731
Construction in Progress	438,955
Capital Assets Being Depreciated	
Plant	29,808,561
Collection System	26,597,693
Machinery & Equipment	1,423,934
Less Accumulated Depreciation	(18,682,754)
Total Capital Assets (Net)	<u>39,662,120</u>

**TOTAL NONCURRENT ASSETS**

40,954,090

**TOTAL ASSETS**\$ 53,165,520**DEFERRED OUTFLOWS OF RESOURCES****Deferred Outflows - Pension**

82,335

**TOTAL DEFERRED OUTFLOWS OF RESOURCES**82,335

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF NET POSITION  
December 31, 2019****LIABILITIES****Current Liabilities:**

Accounts/Vouchers Payable	\$ 159,391
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,274,268
Accrued Interest	171,845
Developer Extension Deposits	40,800
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,646,304</b>

**Noncurrent Liabilities:**

Compensated Absences	250,954
PWTF Loan Payable	-
PWTF Loan Payable - Port District	252,977
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	10,543,314
Pension Liability	305,684
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>11,352,928</b>
<b>TOTAL LIABILITIES</b>	<b>12,999,233</b>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows - Pension	188,891
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>188,891</b>

**NET POSITION**

Net Investment in Capital Assets	28,489,875
Restricted - Bond	1,697,001
Restricted - Bond Reserve	352,824
Restricted - Construction II	301,622
Unrestricted	9,218,410
<b>TOTAL NET POSITION</b>	<b>40,059,732</b>

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
For the Year Ended December 31, 2021****OPERATING REVENUES:**

Utility Sales and Service Fees	\$ 5,239,209
Connection Fees	1,675,560
Other Charges for Services	<u>8,836</u>
Total Operating Revenue	<u>6,923,605</u>

**OPERATING EXPENSES:**

## Operations:

General Operations	1,381,060
Cost of Power	118,020
Maintenance	111,327

## Administration:

General Administration	554,668
Depreciation and Depletion	1,574,588
Property, Excise and B&O Taxes	<u>199,985</u>
Total Operating Expenses	<u>3,939,648</u>

**OPERATING INCOME (LOSS)**

<u><u>\$ 2,983,957</u></u>
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
For the Year Ended December 31, 2021****NONOPERATING REVENUES (EXPENSES)**

Interest Income	\$ 16,694
Interest Expense, Amortization and Related Charges	(331,023)
Gains (Losses) on Capital Asset Disposition	(41,571)
Other Nonoperating Revenues	
Miscellaneous Income	2,881
Non-Operating Revenue - Grants	352,060
Total Nonoperating Revenues (Expenses)	<u>(959)</u>
Income Before Contributions, Transfers and Extraordinary Items	2,982,998
Capital Contributions	1,919,187
CHANGE IN NET POSITION	<u>4,902,185</u>
TOTAL NET POSITION, January 1	46,644,495
TOTAL NET POSITION, December 31	<u><u>\$ 51,546,680</u></u>

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2020****OPERATING REVENUES:**

Utility Sales and Service Fees	\$ 5,100,723
Connection Fees	1,124,436
Other Charges for Services	12,081
Other Operating Revenue-ULID Assessments	
Total Operating Revenue	<u>6,237,240</u>

**OPERATING EXPENSES:**

## Operations:

General Operations	1,209,596
Cost of Power	124,384
Maintenance	84,631

## Administration:

General Administration	621,586
Depreciation and Depletion	1,437,594
Property, Excise and B&O Taxes	134,666
Total Operating Expenses	<u>3,612,456</u>

**OPERATING INCOME (LOSS)**

<u>\$ 2,624,784</u>
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
For the Year Ended December 31, 2020****NONOPERATING REVENUES (EXPENSES)**

Interest Income	\$ 103,252
(Interest Expense, Amortization and Related Charges)	(336,126)
Gains (Losses) on Investments Realized	7,052
Gains (Losses) on Capital Asset Disposition	25,955
Other Nonoperating Revenues	
Miscellaneous Income	4,221
Non-Operating Revenue - Grants	3,607,552
(Other Nonoperating Expenses)	
Total Nonoperating Revenues (Expenses)	<u>3,411,907</u>
Income Before Contributions, Transfers and Extraordinary Items	6,036,691
Capital Contributions	548,072
Extraordinary/Special Items	
CHANGE IN NET POSITION	<u>6,584,763</u>
TOTAL NET POSITION, January 1	40,059,732
PRIOR PERIOD ADJUSTMENTS	
TOTAL NET POSITION, December 31	<u><u>\$ 46,644,495</u></u>

The accompanying notes are an integral part of this statement.



**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2019****OPERATING REVENUES:**

Utility Sales and Service Fees	\$ 4,792,820
Connection Fees	1,267,811
Other Charges for Services	8,327
Other Operating Revenue-ULID Assessments	
Total Operating Revenue	<u>6,068,957</u>

**OPERATING EXPENSES:**

## Operations:

General Operations	1,150,197
Cost of Power	122,350
Maintenance	96,946

## Administration:

General Administration	724,624
Depreciation and Depletion	1,377,782
Property, Excise and B&O Taxes	116,016
Total Operating Expenses	<u>3,587,915</u>

**OPERATING INCOME (LOSS)**

<u>\$ 2,481,043</u>
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District No. 1****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For the Year Ended December 31, 2019****NONOPERATING REVENUES (EXPENSES)**

Interest Income	\$ 288,709
(Interest Expense, Amortization and Related Charges)	(369,814)
Gains (Losses) on Investments Realized	30,613
Gains (Losses) on Capital Asset Disposition	3
Other Nonoperating Revenues	8,056
(Other Nonoperating Expenses)	
Total Nonoperating Revenues (Expenses)	<u>(42,434)</u>

Income Before Contributions, Transfers and Extraordinary Items	2,438,609
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Capital Contributions	921,607
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Extraordinary/Special Items	
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CHANGE IN NET POSITION	<u>3,360,215</u>
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TOTAL NET POSITION, January 1	36,699,516
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**PRIOR PERIOD ADJUSTMENTS**

TOTAL NET POSITION, December 31	<u><u>\$ 40,059,732</u></u>
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2021****CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 6,909,699
Payments to Suppliers	(1,949,852)
Payments to Employees	(1,363,803)
Net Cash Provided by Operating Activities	<u>3,596,044</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Proceeds from Long-Term Debt	1,020,000
Principal Paid on Long-Term Debt	(1,309,268)
Interest Paid on Long-Term Debt	(376,909)
Purchases of Capital Assets	(3,448,198)
Grant Reimbursements	<u>1,949,155</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,165,220)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	16,694
Payments Received on Notes Receivable	<u>89,268</u>
Net Cash Provided by Investing Activities	<u>105,962</u>

**INCREASE IN CASH**1,536,786**BEGINING CASH AND CASH EQUIVALENTS**

12,957,598

**ENDING CASH AND CASH EQUIVALENTS**\$ 14,494,384

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2021****RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$ 2,983,957
Noncash and nonoperating Income	
Other non-operating income	2,881
Gain on disposal of capital asset	(41,571)
Noncash and nonoperating expenses	
Depreciation	1,574,588
Change in pension expense	(251,558)
(Increase) decrease in operating assets	
Accounts receivable	24,188
Prepaid expenses	(30,605)
ULID assessments	596
Increase (decrease) in operating liabilities	
Accounts payable	(676,384)
Compensated absences	9,952
Net cash provided by operating activities	<u>\$ 3,596,044</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Capital Assets Contributed by Developers	1,919,187
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 6,220,777
Payments to Suppliers	(245,019)
Payments to Employees	(1,294,918)
Net Cash Provided by Operating Activities	<u>4,680,840</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Grant Reimbursement for COVID-19 Expenses	6,214
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Long-Term Debt	-
Principal Paid on Long-Term Debt	(1,274,268)
Interest Paid on Long-Term Debt	(412,905)
Purchases of Capital Assets	(4,567,687)
Grant Reimbursements - Wenatchi Landing	2,003,289
Net Cash Used by Capital and Related Financing Activities	<u>(4,251,571)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	103,252
Proceeds from Sale of Investments	-
Purchase of Investments	601,851
Advances on Notes Receivable	-
Payments Received on Notes Receivable	89,268
Net Cash Provided by Investing Activities	<u>794,371</u>
<b>INCREASE IN CASH</b>	<u><u>1,229,854</u></u>
<b>BEGINING CASH AND CASH EQUIVALENTS</b>	11,727,744
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u><u>\$ 12,957,598</u></u>

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2020****RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$ 2,624,784
Noncash and nonoperating Income	
Other non-operating income	4,221
Gain on disposal of capital asset	25,955
ULID assessments	
Noncash and nonoperating expenses	
Depreciation	1,437,594
Change in pension expense	(141,154)
(Increase) decrease in operating assets	
Accounts receivable	(47,082)
Prepaid expenses	(6,754)
ULID assessments	442
Increase (decrease) in operating liabilities	
Accounts payable	747,388
Compensated absences	35,445
Net cash provided by operating activities	<u>\$ 4,680,840</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Capital Assets Contributed by Developers	548,072
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The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 6,062,780
Payments to Suppliers	(973,640)
Payments to Employees	<u>(1,239,377)</u>
Net Cash Provided by Operating Activities	3,849,764
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Long-Term Debt	-
Principal Paid on Long-Term Debt	(1,234,268)
Interest Paid on Long-Term Debt	(451,153)
Purchases of Capital Assets	<u>(1,720,997)</u>
Net Cash Used by Capital and Related Financing Activities	(3,406,417)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	288,709
Proceeds from Sale of Investments	-
Purchase of Investments	275,631
Advances on Notes Receivable	-
Payments Received on Notes Receivable	<u>89,268</u>
Net Cash Provided by Investing Activities	653,608
<b>INCREASE IN CASH</b>	<u><u>1,096,954</u></u>
<b>BEGINING CASH AND CASH EQUIVALENTS</b>	10,630,790
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u><u>\$ 11,727,744</u></u>

The accompanying notes are an integral part of this statement.

**Douglas County Sewer District****Statement of Cash Flows  
For the Year Ended December 31, 2019****RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net Operating Income	\$ 2,481,043
Noncash and nonoperating Income	
Other non-operating income	8,056
Gain on disposal of capital asset	3
ULID assessments	
Noncash and nonoperating expenses	
Depreciation	1,377,782
Change in pension expense	(55,497)
(Increase) decrease in operating assets	
Accounts receivable	(15,886)
Prepaid expenses	5,132
ULID assessments	1,651
Increase (decrease) in operating liabilities	
Accounts payable	26,207
Compensated absences	21,274
Net cash provided by operating activities	<u><u>\$ 3,849,764</u></u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Capital Assets Contributed by Developers	921,607
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The accompanying notes are an integral part of this statement.



# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS January 1, 2021 through December 31, 2021

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **A. Reporting Entity**

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 and operates under the laws of the State of Washington, RCW Chapter 57 and is governed by an elected three member board.

As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

#### **B. Basis of Presentation, Measurement Focus and Basis of Accounting**

The District's proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows, except for the following exceptions which are not in accordance with general accepted accounting principles (GAAP).

1. ULID assessment interest and penalties are not recorded until funds are received.
2. Utility service is billed bi-monthly. Unbilled utility service receivables for the final month of the year are not recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operations revenues of the Douglas County Sewer District are sewer utility revenue and connection fee revenue. Operating expenses for the district include operations and maintenance, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **C. Assets, Liabilities, Fund Balance, Net Position**

##### **1. Cash and Cash Equivalents**

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2021, \$14,599,666 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Bond Debt Service', 'Restricted Assets: Construction II', 'Restricted Assets: Bond Debt Service Reserve', 'Restricted Assets: Bond Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

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

2. Investments - See Note 2 Deposits and Investments

3. Receivables

The District policy is to file liens against a property when sewer service charges are not paid and an amount becomes 60 days past due. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

Special assessments are recorded when levied. Special assessments (ULIDs) receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2021, \$467.57 of special assessments receivable were delinquent.

The District uses the consumption method to account for prepaid expenses.

4. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The Bond Fund balance of \$1,799,769 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position. Specific debt service reserve requirements are described in Note 6 - *Long-Term Debt*.

Restricted funds balances are as follows:

Bond Fund	\$1,799,769
Bond Reserve Fund	\$352,824
Construction II Fund	\$126,171
Net Pension Asset	<u>\$694,623</u>
Totals	\$2,973,388

5. Capital Assets - See Note 3 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical costs when known, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at donor cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method. Initial depreciation begins in the year subsequent to the year asset is recorded. Assets are depreciated over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Preliminary costs incurred for the proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

The District currently recognizes its water rights in the treatment plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets".

#### 6. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

At December 31, 2021, the recorded liability for unpaid vacation benefits was \$121,798; and the recorded liability for sick pay leave benefits was \$174,552.

## 7. Pensions

For purposes of measuring the net pension liability, net pension asset, 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.

## 8. Long-Term Debt - See Note 6 Long-Term Debt

## 9. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues when applicable. Amortization expense for 2021 is \$60,478.

## 10. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,875 per month or \$22,500 a year. Participants age 50 and older are allowed an additional \$7,500 contribution per year up to a maximum of \$30,000. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2021, 12 of 13 employees participated at a total cost to the District of \$10,050.

#### 11. Deferred Inflows / Outflows of Resources

The Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The District currently reports an amount related to pensions as deferred outflows of resources. The Statement of Net Position will also sometimes report a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. On the Statement of Net Position, the District reports only amounts related to pensions in this category.

### **Note 2 - Deposits and Investments**

#### **A. Deposits**

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

Cash on hand at December 31, 2021 was \$247,542. The carrying amount of the District's deposits, managed by the Douglas County Treasurer and invested in the state Local Government Investment Pool, was \$14,599,666 and the County balance invested in the state Local Government Investment Pool was \$14,602,270 net of outstanding items.

#### **B. Investments**

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

#### **Investments in Local Government Investment Pool (LGIP)**

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

During the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement 72, Fair Value Measurement and Application. The District evaluates the methods used by brokers, custodians or pricing services to determine fair value of their investments as required by GASB Statement No. 72. Any currently held long-term investments in the LGIP are measured at amortized cost.

Investments Measured at Amortized Cost	0
State Local Government Investment Pool (LGIP)	\$ 14,599,666
Total Investments in Statement of Net Position	<u>\$ 14,599,666</u>

### **Note 3 - Capital Assets**

Capital assets activity for the year ended December 31, 2021 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:				
Land	69,588			69,588
Water Rights	6,143			6,143
Construction In Progress	64,513	5,331,050	5,182,793	212,770
Total Capital Assets Not Being Depreciat	140,244	5,331,050	5,182,793	288,501
Capital Assets Being Depreciated:				
Plant & Buildings	30,007,046	274,350		30,281,396
Machinery & Equipment	1,489,110	211,209	165,426	1,534,893
Collection System	31,779,918	4,751,169		36,531,087
Total Capital Assets Being Depreciated	63,276,074	5,236,728	165,426	68,347,376
Less Accumulated Depreciation for:				
Plant & Buildings	12,675,847	955,460		13,631,307
Machinery & Equipment	938,976	125,887	106,256	958,607
Collection System	6,461,211	493,241		6,954,452
Total Accumulated Depreciation	20,076,034	1,574,588	106,256	21,544,366
Total Capital Assets Being Depreciated, Net	43,200,040	3,662,140	59,171	46,803,009
Total Capital Assets, Net	<u>\$43,340,284</u>	<u>\$8,993,190</u>	<u>\$5,241,964</u>	<u>\$47,091,510</u>

\* Beginning balances of Water Rights and Land were reclassified

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2021.

**Note 4 - Construction and Other Significant Commitments**

The District has active construction and other significant projects as of December 31, 2021. The projects include:

Project	Project Authorization	Spent to Date 12/31/21	Remaining Commitment	Required Future Financing	Source of Committed Funding
Empire Ave/Wenatchi Landing Extension	4,000,000	3,793,339	206,661	0	Legislative Grant
Summerplace Lift Station Improvements	155,500	52,033	103,467	0	TBD
WWTP Storage Structure/Security Gate	560,000	97,501	462,499	0	TBD
Lexington to Lawler Mainline Replacement	38,250	8,296	29,954	0	Cash Reserves
Legacy Estate Forcemain Upgrade		37,939	-37,939	TBD	TBD
SNDR Towers Coating Refurbishment	17,000	17,000	0	0	Cash Reserves
	\$ 4,770,750	\$ 4,006,109	\$ 764,641	\$ -	TBD: To be determined

**Note 5 - Changes in Long-Term Liabilities**

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

ID #	Description	Maturity / Payment Due Date	Beginning Balance 12/31/20	Additions	Reductions	Ending Balance 12/31/21
259	Compensated Absences		286,298	10,052		296,350
264	Pension Liability		242,069		175,854	66,215
263	2001 PWTF - Port Preconstruction	7/1/2021	7,414		7,414	0
263	2003 PWTF - Port Construction	7/1/2023	245,563		81,854	163,709
252	2006 Bond - Plant Upgrade	8/1/2024	860,000			860,000
252	2016 Bond - Refunding/New	8/1/2035	8,785,000		1,220,000	7,565,000
263	2021 CERB - Batterman Lift	1/1/2041	0	1,020,000		1,020,000
	Total Long-Term Debt		10,426,345	1,030,052	1,485,122	9,971,274

**Note 6 - Long-Term Debt**

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2021, the District has \$1,799,769 available in a debt service fund to service the 2022 bonded debt. Restricted assets in proprietary funds contain \$2,278,764 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$8,425,000.00 in sewer revenue bonds issued in 2006 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$10,015,563. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,595,044 and \$8,875,641 respectively.

The District also has two non-parity, Public Works Trust Fund loans for a system extension project. Total principal and interest remaining to be paid on the non-parity debt is \$164,937 which is comprised of two pass-through loans for which the Chelan-Douglas Regional Port Authority reimburses the District for annual debt service. Principal and interest for the current year on the non-parity debt is \$90,533 of which the Chelan-Douglas Regional Port Authority reimbursed \$90,533 of debt service to the District.

In 2021, the District secured a CERB loan to finance replacement of the Batterman Lift Station. The first payment will be made in January of 2022 on the principal of \$1,020,000 and the interest of \$242,360.

**Direct Placement Revenue Bonds** – Revenue bonds are authorized and adopted by the Board of Commissioners for the construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt. Direct Placements debt details of the District as of 12/31/2021 as outlined below.

**Direct Borrowings** – The District receives low-cost loan financing directly from third parties to finance wastewater infrastructure needs. Direct Borrowing details of the District as of 12/31/2021 as outlined below.

#### A. Direct Placement

	2006 Bond		2016 Refunding Bonds	
Original Amount	\$8,440,000		\$11,850,000	
Interest Rate	4.20%		2.42%	
Dated	11/15/06		5/23/16	
Maturity	2024		2035	
Year	Principal	Interest	Principal	Interest
2022	0	36,550	1,260,000	301,894
2023	0	36,550	1,295,000	264,094
2024	860,000	36,550	490,000	205,819
2025	0	0	1,145,000	183,769
2026	0	0	1,200,000	132,244
2027-2031	0	0	1,120,000	308,819
2032-2036	0	0	1,055,000	84,275
<b>Totals</b>	<b>860,000</b>	<b>109,650</b>	<b>7,565,000</b>	<b>1,480,913</b>



**B. Direct Borrowing**

	<b>2021 CERB Loan</b>		<b>2003 PWTF Loan</b>	
Original Amount	\$1,020,000		\$1,555,235	
Interest Rate	2.00%		0.50%	
Dated	10/31/19		7/29/03	
Maturity	2041		2023	
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2022	30,407	32,711	81,854	819
2023	43,326	19,792	81,855	409
2024	44,193	18,925	0	0
2025	45,077	18,041	0	0
2026	45,978	17,140		
2027-2031	244,057	71,533	0	0
2032-2036	269,459	46,131	0	0
2037-2041	297,504	18,086	0	0
<b>Totals</b>	<b>1,020,000</b>	<b>242,360</b>	<b>163,709</b>	<b>1,228</b>

The annual requirements to amortize all debts outstanding as of December 31, 2021, including interest, are:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2022	1,372,261	371,974	1,744,235
2023	1,420,181	320,845	1,741,026
2024	1,394,193	261,294	1,655,487
2025	1,190,077	201,810	1,391,887
2026	1,245,978	149,384	1,395,362
2031	1,364,057	380,352	1,744,409
2036	1,324,459	130,406	1,454,865
2041	297,504	18,086	315,590
<b>Total</b>	<b>9,608,709</b>	<b>1,834,151</b>	<b>11,442,860</b>

**Note 7 - Restricted Component of Net Position**

The District's Statement of Net Position reports \$2,973,388 of restricted component of net assets, of which \$2,152,594 is restricted by bond covenants.

**Note 8 - COVID-19 Pandemic**

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

The Governor's stay-at-home order recognizes wastewater services as an essential service, so the District has continued to operate essentially normally since the beginning of the pandemic. The Governor issued Proclamation 20-23.5 - Ratepayer Assistance and Preservation of Essential Services in May 2020, which prohibits utilities from charging late fees or shutting off essential services. The District returned to assessing penalties for late payments and past due collection practices after this proclamation ended on September 30, 2021.

Development activity in the District service area has remained strong despite the economic impacts of the COVID-19 pandemic. The District has not experienced any significant financial impacts due to the pandemic other than the loss of late fee revenue during the period of the prohibition of an approximate amount of \$330,000.

#### **Note 9 - Risk Management (for participating member of pool)**

Douglas County Sewer District #1 is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2021, there were 539 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris' program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement program. Pollution coverage is provided on a "claims made" coverage form. All other coverage is provided on an "occurrence" coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
<b>Liability:</b>				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act	\$1 million	\$20 million	\$1,000 - \$100,000
	Member Aggregate		\$20 million	
Terrorism Liability(2)	Per Occurrence	\$500,000	\$0	\$1,000 - \$100,000
	Pool Aggregate	\$1 million	Fully funded by Pool	
Employment Practices Liability	Per Occurrence	\$1 million	\$20 million	20% Copay(3)
	Pool Aggregate		\$20 million	

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible

(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs up to a maximum of \$100,000. By meeting established guidelines, the co-pay may be waived.

**Property (2):**

Buildings and Contents	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$800 million	\$1,000 - \$250,000
Boiler and Machinery (3)	Per Occurrence	Varies	\$100 million	Varies

Business Interruption (BI)/ Extra Expense (EE) (4)	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
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**Sublimit (5):**

Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5%; \$500,000 maximum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million/ Pool member \$200 million	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/Pool member \$1.2 billion/APIP \$1.4 billion/APIP	\$0

<b>Automobile Physical Damage (6)</b>	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles	\$800 million	\$250 - \$1,000
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<b>Crime Blanket (7)</b>	Per Occurrence	\$50,000	\$1 million	\$1,000
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<b>Named Position (8)</b>	Per Occurrence	\$50,000	\$1 million	\$1,000
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<b>Cyber (9)</b>	Each Claim	\$100,000	\$2 million	20% Copay
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	APIP Aggregate		\$25 million	
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<b>Identity Fraud Expense Reimbursement (10)</b>	Member Aggregate	\$0	\$25,000	\$0
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(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.

(2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$800 million except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.

(3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.

(4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.

(5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.

(6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.

(7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$1 million.

(8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.

(9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.

(10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

#### **Note 10 - Pensions Plans**

For purposes of measuring the net pension liability, pension asset, 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 plan and addition 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.

The following table represents the aggregate pension amounts for all plans for the year 2021:

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$ 66,215
Pension assets	\$ (694,623)
Deferred outflows of resources	\$ 104,876
Deferred inflows of resources	\$ (752,812)
Pension expense	\$ (147,157)

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

Substantially all 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.

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 (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

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

### **Public Employees' Retirement System (PERS)**

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

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

### **Contributions**

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
January - June 2021:		
PERS PLAN 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
<b>TOTAL</b>	<b>12.97%</b>	<b>6.00%</b>
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
July - December 2021:		
PERS PLAN 1	10.07%	6.00%
Administrative Fee	0.18%	
<b>TOTAL</b>	<b>10.25%</b>	<b>6.00%</b>

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

With a benefit that is reduced by three percent for each year before age 65; or

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

### **Contributions**

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

component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January - August 2021:		
PERS PLAN 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>TOTAL</b>	<b>12.97%</b>	<b>7.90%</b>
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
September - December 2021:		
PERS PLAN 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>TOTAL</b>	<b>10.25%</b>	<b>6.36%</b>

The Douglas County Sewer District's actual PERS plan contributions were \$37,167 to PERS Plan 1 and \$61,904 to PERS Plan 2/3 for the year ended December 31, 2021.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2018. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

**Inflation:** 2.75% total economic inflation; 3.50% salary inflation

**Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by



member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for 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.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

## **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 percent was used to determine the total liability.

## **Long-Term Expected Rate of Return**

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

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

**Estimated Rates of Return by Asset Class**

<b>Asset Class:</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
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%
	100%	

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

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

	<b>1% Decrease (6.4%)</b>	<b>Current Discount (7.4%)</b>	<b>1% Increase (8.4%)</b>
PERS 1	112,802	66,215	25,587
PERS 2/3	-197,885	-694,623	-1,103,687

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the Douglas County Sewer District No. 1 reported a total pension liability of (\$628,408) for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	66,215
PERS 2/3	-694,623

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

	Proportionate Share 06/30/19	Proportionate Share 06/30/20	Change in Proportionate Share
PERS Plan 1	0.004651%	0.005422%	0.000771%
PERS Plan 2/3	0.006088%	0.006973%	0.000885%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 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*.

### Pension Expense

For the year ended December 31, 2021, the Douglas County Sewer District recognized pension expense as

	Pension Expense
PERS 1	\$14,930
PERS 2/3	-\$162,087
TOTAL	-\$147,157

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

At December 31, 2021, the Douglas County Sewer District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	0	-73,477
Contributions subsequent to the measurement date	16,578	0
TOTAL	16,578	-73,477

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	33,737	-8,515
Net difference between projected and actual investment earnings on pension plan investments	0	-580,542
Changes of assumptions	1,015	-49,330

Changes in proportion and differences between contributions and proportionate share of contributions	25,127	-40,948
Contributions subsequent to the measurement date	28,419	
<b>TOTAL</b>	<b>88,298</b>	<b>-679,335</b>

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

<b>Year ended December 31:</b>	<b>PERS 1 - Yearly Amortization</b>	<b>PERS 2/3 - Yearly Amortization</b>
2022	-\$19,464	-\$163,497
2023	-\$17,836	-\$153,067
2024	-\$16,865	-\$143,972
2025	-\$19,312	-\$154,711
2026	\$0	-\$5,392
Thereafter	\$0	\$1,184

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS January 1, 2020 through December 31, 2020

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **A. Reporting Entity**

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 and operates under the laws of the State of Washington, RCW Chapter 57 and is governed by an elected three member board.

As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

#### **B. Basis of Presentation, Measurement Focus and Basis of Accounting**

The District's proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows, except for the following exceptions which are not in accordance with general accepted accounting principles (GAAP).

1. ULID assessment interest and penalties are not recorded until funds are received.
2. Utility service is billed bi-monthly. Unbilled utility service receivables for the final month of the year are not recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operations revenues of the Douglas County Sewer District are sewer utility revenue and connection fee revenue. Operating expenses for the district include operations and maintenance, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2020, \$12,643,304 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer and \$0 was invested in U.S. Securities Bonds with U.S. Bank and administered through the Douglas County Treasurer and Time Value Investments, LLC. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Services', 'Restricted Assets: Construction Accounts', 'Restricted Assets: Debt Service Reserve', 'Restricted Assets: Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

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

2. Investments - See Note 2 Deposits and Investments

3. Receivables

The District policy is to file liens against a property when sewer service charges are not paid and an amount becomes 60 days past due. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

Special assessments are recorded when levied. Special assessments (ULIDs) receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2020, \$467.57 of special assessments receivable were delinquent.

4. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The Bond Fund balance of \$1,714,583 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position. Specific debt service reserve requirements are described in Note 6 - *Long-Term Debt*.

Restricted funds balances are as follows:

Bond Fund	\$1,714,583
Bond Reserve Fund	\$352,824
Construction II Fund	<u>\$303,882</u>
Totals	\$2,371,289

#### 5. Capital Assets - See Note 3 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical costs when known, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at donor cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method. Initial depreciation begins in the year subsequent to the year asset is recorded. Assets are depreciated over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Preliminary costs incurred for the proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

#### 6. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

At December 31, 2020, the recorded liability for unpaid vacation benefits was \$117,566; and the recorded liability for sick pay leave benefits was \$168,833.

#### 7. 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.

#### 8. Long-Term Debt - See Note 6 Long-Term Debt and Note 6 Long-Term Debt Graph

#### 9. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2020 is \$60,478.

#### 10. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.



The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,541 per month or \$18,500 a year. Participants age 50 and older are allowed an additional \$6,000 contribution per year up to a maximum of \$24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2020, 11 of 12 employees participated at a total cost to the District of \$9,585.

## **Note 2 - Deposits and Investments**

### **A. Deposits**

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

Cash on hand at December 31, 2020 was \$667,118. The carrying amount of the District's deposits, managed by the Douglas County Treasurer and invested in the state Local Government Investment Pool, was \$12,643,304 and the county balance was \$12,627,939 net of outstanding items.

### **B. Investments**

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

### Investments in Local Government Investment Pool (LGIP)

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

During the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement 72, Fair Value Measurement and Application. The District evaluates the methods used by brokers, custodians or pricing services to determine fair value of their investments as required by GASB Statement No. 72. All long-term investments in the LGIP are measured at amortized cost; all long-term investments in U.S. Treasury securities with U.S. Bank are measured at fair market value.

### Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: These are quoted market prices for similar assets, quoted prices for identical or similar assets in

Level 3: Unobservable inputs for an asset.

At December 31, 2020, the District had the following investments measured at fair value:

Investments by Fair Value Level	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2020</u>
U.S. Treasury Securities	\$	-	\$	-
Investments Measured at Amortized Cost				
State Local Government Investment Pool (LGIP)			\$	12,643,304
Total Investments in Statement of Net Position			\$	<u>12,643,304</u>

**Note 3 - Capital Assets**

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

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	75,731				75,731
Construction In Progress	438,955		7,176,195	7,550,637	64,513
Total Capital Assets Not Being Depreciated	514,686	0	7,176,195	7,550,637	140,244
Capital Assets Being Depreciated:					
Plant & Buildings	29,808,561	0	198,485	0	30,007,046
Machinery & Equipment	1,423,934	0	109,491	44,315	1,489,110
Collection System	26,597,693	0	5,182,225	0	31,779,918
Total Capital Assets Being Depreciated	57,830,189	0	5,490,201	44,315	63,276,074
Less Accumulated Depreciation for:					
Plant & Buildings	11,722,870		952,976	0	12,675,847
Machinery & Equipment	900,925		82,366	44,315	938,976
Collection System	6,058,959		402,252	0	6,461,211
Total Accumulated Depreciation	18,682,754	0	1,437,594	44,315	20,076,033
Total Capital Assets Being Depreciated, Net	39,147,434		4,052,607	0	43,200,041
Total Capital Assets, Net	\$39,662,120	\$0	\$11,228,803	\$7,550,637	\$43,340,285

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2020.

**Note 4 - Construction and Other Significant Commitments**

The District has active construction and other significant projects as of December 31, 2020. The projects include:

Project	Project Authorization	Spent to Date 12/31/20	Remaining Commitment	Required Future Financing	Source of Committed Funding
Empire Ave/Wenatchi Landing Extension	4,000,000	2,003,289	1,996,711	0	Legislative Grant
	26,000	1,624,745	-1,598,745	0	Cash Reserves
Batterman Lift Station Improvements	1,020,000	830,105	189,895	0	CERB Loan
	180,000	0	180,000	0	CERB Grant
	300,000	590,124	-290,124	0	CERB Loan Match / Cash Reserves
Summerplace Lift Station Improvements	1,190,000	46,551	1,143,449	TBD	TBD
WWTP Storage Structure	570,000	17,962	552,038	TBD	TBD
4th St SE - Lyle to Mary Upsize Line	379,080	352,497	26,583	TBD	TBD
	\$ 7,665,080	\$ 5,465,273	\$ 2,199,807	\$ -	TBD: To be determined

**Note 5 - Changes in Long-Term Liabilities**

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

ID #	Description	Maturity / Payment Due Date	Beginning Balance 12/31/19	Additions	Reductions	Ending Balance 12/31/20
259	Compensated Absences		250,954	35,345		286,298
259	Pension Liability		305,684	2,671	66,285	242,069
263	2001 PWTF - Port Preconstructio	7/1/2021	14,827		7,414	7,414
263	2003 PWTF - Port Construction	7/1/2023	327,418		81,854	245,563
252	2006 Bond - Plant Upgrade	8/1/2024	860,000		0	860,000
252	2016 Bond - Refunding/New	8/1/2035	9,970,000		1,185,000	8,785,000
	Total Long-Term Debt		<u>11,728,882</u>	<u>38,015</u>	<u>1,340,553</u>	<u>10,426,345</u>

**Note 6 - Long-Term Debt** - See attached Note 6 Long-term Debt Graph

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2020, the District has \$1,714,583 available in a debt service fund to service the 2020 bonded debt. Restricted assets in proprietary funds contain \$2,371,289 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$9,645,000.00 in sewer revenue bonds issued in 2006 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$11,610,606. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,595,594 and \$8,250,964 respectively.

The District also has two non-parity, Public Works Trust Fund loans for a system extension project. Total principal and interest remaining to be paid on the non-parity debt is \$255,470 which is comprised of two pass-through loans for which the Chelan-Douglas Regional Port Authority reimburses the District for annual debt service. Principal and interest for the current year on the non-parity debt is \$90,979 of which the Chelan-Douglas Regional Port Authority reimbursed \$90,979 of debt service to the District.

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS January 1, 2020 through December 31, 2020

### Note 6 - Long-Term Debt

#### A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2020, including interest, are:

Year	2006 Bond WWTP Upgrade		2013 Refunding Bonds Refunded 2003 Bond		2016 Refunding Bonds Refund 2008/New Money		2001 PWTF Loan Port Dist Pass-thru Preconstruction		2003 PWTF Loan Port Dist Pass-thru Construction		Total Long- Term Debt and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2021	0	36,550	0	0	1,220,000	338,494	7,414	37	81,854	1,228	1,685,577
2022	0	36,550	0	0	1,260,000	301,894	0	0	81,854	819	1,681,117
2023	0	36,550	0	0	1,295,000	264,094	0	0	81,855	409	1,677,908
2024	860,000	36,550	0	0	490,000	205,819	0	0	0	0	1,592,369
2025	0	0	0	0	1,145,000	173,769	0	0	0	0	1,318,769
2026- 2030	0	0	0	0	2,080,000	396,969	0	0	0	0	2,476,969
2031- 2035	0	0	0	0	1,295,000	128,369	0	0	0	0	1,423,369
2036- 2040	0	0	0	0	0	0	0	0	0	0	0
Totals	860,000	146,200	0	0	8,785,000	1,809,407	7,414	37	245,563	2,456	11,856,077
ID#	252.11		252.11		252.11		263.87		263.87		11,856,077
Original Amount	\$8,440,000		\$2,930,000		\$11,850,000		\$179,962		\$1,555,235		
Interest Rate	4.20%		1.56%		2.42%		0.50%		0.50%		
Dated	11/15/06		5/28/13		5/23/16		3/19/01		7/29/03		
Maturity	2024		2019		2035		2021		2023		
Last Pmt	8/1/24		8/1/19		08/01/35		7/1/21		7/1/23		

### **Note 7 - Restricted Component of Net Position**

The District's Statement of Net Position reports \$2,371,289 of restricted component of net assets, of which \$2,067,407 is restricted by bond covenants.

### **Note 8 - Risk Management**

Douglas County Sewer District 1 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an Interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

\$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

\$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$800 million per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum period of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven board members governs Enduris. The Pool's members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

## **Note 9 - Pensions Plans**

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 plan and addition 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.

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

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$ 242,069
Pension assets	\$ -
Deferred outflows of resources	\$ 89,740
Deferred inflows of resources	\$ (118,757)
Pension expense	\$ 36,032

### **State Sponsored Pension Plans**

Substantially all 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.

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

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

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



## Public Employees' Retirement System (PERS)

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

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

### Contributions

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

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January - June 2020:		
PERS PLAN 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
<b>TOTAL</b>	<b>12.86%</b>	<b>6.00%</b>
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
July - December 2020:		
PERS PLAN 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
<b>TOTAL</b>	<b>12.97%</b>	<b>6.00%</b>

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

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

With a benefit that is reduced by three percent for each year before age

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

### **Contributions**

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

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January - August 2020:		
PERS PLAN 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies

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

\*For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The Douglas County Sewer District's actual PERS plan contributions were \$39,651 to PERS Plan 1 and \$65,470 to PERS Plan 2/3 for the year ended December 31, 2020.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2018. 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*.

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

**Inflation:** 2.75% total economic inflation; 3.50% salary inflation

**Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

**Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for 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

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used

to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.

- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

### **Discount Rate**

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### **Long-Term Expected Rate of Return**

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

### **Estimated Rates of Return by Asset Class**

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

### Estimated Rates of Return by Asset Class

<b>Asset Class:</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
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%
	100%	

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

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

	<b>1% Decrease (6.4%)</b>	<b>Current Discount (7.4%)</b>	<b>1% Increase (8.4%)</b>
PERS 1	205,677	164,205	128,038
PERS 2/3	484,479	77,862	-256,987

\* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2020, the Douglas County Sewer District No. 1 reported a total pension liability of \$242,067 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	164,205
PERS 2/3	77,862

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

	Proportionate Share 06/30/19	Proportionate Share 06/30/20	Change in Proportionate Share
PERS Plan 1	0.005994%	0.004651%	-0.001343%
PERS Plan 2/3	0.007741%	0.006088%	-0.001653%

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

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

### Pension Expense

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

	Pension Expense
PERS 1	\$43,792
PERS 2/3	-\$7,760
TOTAL	\$36,032

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

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	0
Net difference between projected and actual investment earnings on pension plan investments	0	914
Changes of assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	19,982	0
TOTAL	19,982	914

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	27,873	9,758
Net difference between projected and actual investment earnings on pension plan investments	0	3,954
Changes of assumptions	1,109	53,187
Changes in proportion and differences between contributions and proportionate share of contributions	13,571	50,940
Contributions subsequent to the measurement date	32,743	0
<b>TOTAL</b>	<b>75,296</b>	<b>117,839</b>

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

<b>Year ended December 31:</b>	<b>PERS 1 - Yearly Amortization</b>
2021	-\$4,149
2022	-\$130
2023	\$1,266
2024	\$2,099
2025	\$0
Thereafter	\$0

<b>Year ended December 31:</b>	<b>PERS 2/3 - Yearly Amortization</b>
2021	-\$39,494
2022	-\$14,908
2023	-\$5,802
2024	\$2,476
2025	-\$6,835
Thereafter	-\$10,722

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS January 1, 2019 through December 31, 2019

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

### **Note 1 - Summary of Significant Accounting Policies**

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

#### **A. Reporting Entity**

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 and operates under the laws of the State of Washington, RCW Chapter 57 and is governed by an elected three member board.

As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

#### **B. Basis of Presentation, Measurement Focus and Basis of Accounting**

The District's proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows, except for the following exceptions which are not in accordance with general accepted accounting principles (GAAP).

1. ULID assessment interest and penalties are not recorded until funds are received.
2. Utility service is billed bi-monthly. Unbilled utility service receivables for the final month of the year are not recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operations revenues of the Douglas County Sewer District are sewer utility revenue and connection fee revenue. Operating expenses for the district include operations and maintenance, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2019, \$11,575,419 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer and \$895,799 was invested in U.S. Securities Bonds with U.S. Bank and administered through the Douglas County Treasurer and Time Value Investments, LLC. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Debt Services', 'Restricted Assets: Construction Accounts', 'Restricted Assets: Debt Service Reserve', 'Restricted Assets: Debt Service Reserve Long-term Investments' and 'Unrestricted Assets: Long-term Investments'.

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

2. Investments - See Note 2 Deposits and Investments

3. Receivables

The District policy is to file liens against a property when sewer service charges are not paid and an amount becomes 60 days past due. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

Special assessments are recorded when levied. Special assessments (ULIDs) receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2019, \$467.57 of special assessments receivable were delinquent.

4. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The Bond Fund balance of \$1,697,001 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position. Specific debt service reserve requirements are described in Note 6 - *Long-Term Debt*.

Restricted funds balances are as follows:

Bond Fund	\$1,697,001
Bond Reserve Fund	\$352,824
Construction II Fund	<u>\$301,622</u>
Totals	\$2,351,447

## 5. Capital Assets - See Note 3 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical costs when known, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at donor cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method. Initial depreciation begins in the year subsequent to the year asset is recorded. Assets are depreciated over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital assets accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss is credited or charged to income.

Preliminary costs incurred for the proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to capital assets; charges that related to abandoned projects are expensed.

## 6. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

At December 31, 2019, the recorded liability for unpaid vacation benefits was \$99,656; and the recorded liability for sick pay leave benefits was \$151,298.

## 7. 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.

## 8. Long-Term Debt - See Note 6 Long-Term Debt and Note 6 Long-Term Debt Graph

## 9. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues. Amortization expense for 2019 is \$65,384.

## 10. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,541 per month or \$18,500 a year. Participants age 50 and older are allowed an additional \$6,000 contribution per year up to a maximum of \$24,500. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2019, 11 of 12 employees participated at a total cost to the District of \$9,300.

## **Note 2 - Deposits and Investments**

### **A. Deposits**

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

Cash on hand at December 31, 2019 was \$204,150. The carrying amount of the District's deposits, managed by the Douglas County Treasurer and invested in the state Local Government Investment Pool, was \$11,575,419 and the county balance was \$11,723,909 net of outstanding items.

### **B. Investments**

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

## Investments in Local Government Investment Pool (LGIP)

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

During the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement 72, Fair Value Measurement and Application. The District evaluates the methods used by brokers, custodians or pricing services to determine fair value of their investments as required by GASB Statement No. 72. All long-term investments in the LGIP are measured at amortized cost; all long-term investments in U.S. Treasury securities with U.S. Bank are measured at fair market value.

## Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: These are quoted market prices for similar assets, quoted prices for identical or similar

Level 3: Unobservable inputs for an asset.

At December 31, 2019, the District had the following investments measured at fair value:

Investments by Fair Value Level	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2019</u>
U.S. Treasury Securities	\$	895,799	\$	895,799
Investments Measured at Amortized Cost				
State Local Government Investment Pool (LGIP)			\$	11,575,419
Total Investments in Statement of Net Position			\$	<u>12,471,218</u>

**Note 3 - Capital Assets**

Capital assets activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Reclassify	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:					
Land	75,731				75,731
Construction In Progress	346,379		1,452,876	1,360,300	438,955
Total Capital Assets Not Being Depreciated	422,110	0	1,452,876	1,360,300	514,686
Capital Assets Being Depreciated:					
Plant & Buildings	28,499,399		1,377,140	67,977	29,808,561
Machinery & Equipment	1,390,706	62,516	11,109	40,397	1,423,934
Collection System	25,497,104	-62,516	1,163,106	0	26,597,693
Total Capital Assets Being Depreciated	55,387,208	0	2,551,355	108,375	57,830,189
Less Accumulated Depreciation for:					
Plant & Buildings	10,887,442		902,079	66,651	11,722,870
Machinery & Equipment	850,424		90,898	40,397	900,925
Collection System	5,674,154		384,805	0	6,058,960
Total Accumulated Depreciation	17,412,020	0	1,377,782	107,048	18,682,755
Total Capital Assets Being Depreciated, Net	37,975,188		1,173,572	1,327	39,147,434
Total Capital Assets, Net	<u>\$38,397,298</u>	<u>\$0</u>	<u>\$2,626,448</u>	<u>\$1,361,627</u>	<u>\$39,662,119</u>

The District expenses any impairment losses that may arise. There were no impairment losses to report for 2019.

**Note 4 - Construction and Other Significant Commitments**

The District has active construction and other significant projects as of December 31, 2019. The projects include:

	Project Authorization	Expended thru 12/31/19	Committed	Required Future Financing	Source of Committed Funding
Empire Ave/Wenatchi Landing Extension	4,000,000	180,596	3,819,404	0	Legislative Grant
	26,000	26,000	0	0	Cash Reserves
Batterman Lift Station Improvements	1,020,000	0	1,020,000	0	CERB Loan
	180,000	0	180,000	0	CERB Grant
	300,000	184,745	115,255	0	CERB Loan Match / Cash Reserves
Summerplace Lift Station Improvements	1,190,000	38,438	1,151,562	TBD	TBD
WWTP Storage Structure	570,000	122	569,878	TBD	TBD
4th St SE - Lyle to Mary Upsize Line	379,080	9,054	370,026	TBD	TBD
	\$ 7,665,080	\$ 438,955	\$ 7,226,125	\$ -	TBD: To be determined

**Note 5 - Changes in Long-Term Liabilities**

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

ID #	Description	Maturity / Payment Due Date	Beginning Balance 12/31/18	Additions	Reductions	Ending Balance 12/31/19
259	Compensated Absences		229,680	21,274		250,954
259	Pension Liability		380,432		74,748	305,684
263	2001 PWTF - Port Preconstructio	7/1/2021	22,240		7,414	14,826
263	2003 PWTF - Port Construction	7/1/2023	409,272		81,854	327,418
252	2006 Bond - Plant Upgrade	8/1/2024	860,000		0	860,000
252	2013 Bond - Refunding	8/1/2019	535,000		535,000	0
252	2016 Bond - Refunding/New	8/1/2035	10,580,000		610,000	9,970,000
	Total Long-Term Debt		13,016,625	21,274	1,309,016	11,728,882

**Note 6 - Long-Term Debt** - See attached Note 6 Long-term Debt Graph

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2019, the District has \$1,697,000 available in a debt service fund to service the 2020 bonded debt. Restricted assets in proprietary funds contain \$2,351,447 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$10,830,000.00 in sewer revenue bonds issued in 2006, 2013 and 2016.

The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$13,206,200. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,593,369 and \$6,077,013 respectively.

The District also has two non-parity, Public Works Trust Fund loans for a system extension project. Total principal and interest remaining to be paid on the non-parity debt is \$346,449 which is comprised of two pass-through loans for which the Chelan-Douglas Regional Port Authority reimburses the District for annual debt service. Principal and interest for the current year on the non-parity debt is \$91,425 of which the Chelan-Douglas Regional Port Authority reimbursed \$91,425 of debt service to the District.



# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS January 1, 2019 through December 31, 2019

### Note 6 - Long-Term Debt

#### A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2019, including interest, are:

Year	2006 Bond WWTP Upgrade		2013 Refunding Bonds Refunded 2003 Bond		2016 Refunding Bonds Refund 2008/New Money		2001 PWTF Loan Port Dist Pass-thru Preconstruction		2003 PWTF Loan Port Dist Pass-thru Construction		Total Long- Term Debt and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2020	0	36,550			1,185,000	374,044	7,414	74	81,854	1,637	1,686,573
2021	0	36,550			1,220,000	338,494	7,414	37	81,854	1,228	1,685,577
2022	0	36,550			1,260,000	301,894	0	0	81,854	819	1,681,117
2023	0	36,550			1,295,000	264,094	0	0	81,855	409	1,677,908
2024	860,000	36,550			490,000	205,819	0	0	0	0	1,592,369
2025- 2029					2,995,000	527,444	0	0	0	0	3,522,444
2030- 2034					1,250,000	173,069	0	0	0	0	1,423,069
2035- 2039					275,000	8,594	0	0	0	0	283,594
Totals	860,000	182,750	0	0	9,970,000	2,193,450	14,828	111	327,418	4,093	13,552,650
ID#	252.11		252.11		252.11		263.87		263.87		13,552,650
Original Amount	\$8,440,000		\$2,930,000		\$11,850,000		\$179,962		\$1,555,235		
Interest Rate	4.20%		1.56%		2.42%		0.50%		0.50%		
Dated	11/15/06		5/28/13		5/23/16		3/19/01		7/29/03		
Maturity	2024		2019		2035		2021		2023		
Last Pmt	8/1/24		8/1/19		08/01/35		7/1/21		7/1/23		

### **Note 7 - Restricted Component of Net Position**

The District's Statement of Net Position reports \$2,351,447 of restricted component of net assets, of which \$2,049,825 is restricted by bond covenants.

### **Note 8 - Risk Management**

Douglas County Sewer District 1 is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an Interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

\$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.

\$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a "per occurrence" basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum period of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven board members governs Enduris. The Pool's members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

#### **Note 9 - Pensions Plans**

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 plan and addition 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.

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

<b>Aggregate Pension Amounts - All Plans</b>	
Pension liabilities	\$ 305,684
Pension assets	\$ -
Deferred outflows of resources	\$ 82,335
Deferred inflows of resources	\$ (188,887)
Pension expense	\$ 40,512

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

Substantially all 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.

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

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

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

## Public Employees' Retirement System (PERS)

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

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

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

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

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

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

With a benefit that is reduced by three percent for each year before age

With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

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

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

### **Contributions**

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

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

\*For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The Douglas County Sewer District's actual PERS plan contributions were **\$37,546** to PERS Plan 1 and **\$58,463** to PERS Plan 2/3 for the year ended December 31, 2019.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 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%

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 percent 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 since the last valuation.

- \* 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

- \* OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS 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 included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates included a component for PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

## **Long-Term Expected Rate of Return**

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

## **Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

### Estimated Rates of Return by Asset Class

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

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

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

	1% Decrease (6.4%)	Current Discount (7.4%)	1% Increase (8.4%)
PERS 1	288,648	230,491	180,032
PERS 2/3	576,688	75,191	-336,320

\* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the Douglas County Sewer District No. 1 reported a total pension liability of **\$305,682** for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	230,491
PERS 2/3	75,191



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

	Proportionate Share 06/30/18	Proportionate Share 06/30/19	Change in Proportionate Share
PERS Plan 1	0.005724%	0.005994%	0.000270%
PERS Plan 2/3	0.007309%	0.007741%	0.000432%

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

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

### Pension Expense

For the year ended December 31, 2019, the Douglas County Sewer District recognized pension expense as

	Pension Expense
PERS 1	\$19,787
PERS 2/3	\$20,725
TOTAL	\$40,512

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

At December 31, 2019, the Douglas County Sewer District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	0	0
Net difference between projected and actual investment earnings on pension plan investments	0	15,399
Changes of assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	17,308	0
TOTAL	17,308	15,399

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	21,543	16,166
Net difference between projected and actual investment earnings on pension plan investments	0	109,448
Changes of assumptions	1,925	31,548
Changes in proportion and differences between contributions and proportionate share of contributions	18,302	16,327
Contributions subsequent to the measurement date	28,796	0
<b>TOTAL</b>	<b>70,566</b>	<b>173,489</b>

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

<b>Year ended December 31:</b>	<b>PERS 1 - Yearly Amortization</b>
2020	-\$3,399
2021	-\$8,052
2022	-\$2,873
2023	-\$1,074
2024	\$0
Thereafter	\$0

<b>Year ended December 31:</b>	<b>PERS 2/3 - Yearly Amortization</b>
2020	-\$32,640
2021	-\$57,176
2022	-\$25,915
2023	-\$14,336
2024	-\$4,533
Thereafter	\$2,880

**DOUGLAS COUNTY SEWER DISTRICT NO. 1**  
**Required Supplementary Information (RSI) - all cost-sharing employers**

Douglas County Sewer District  
Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1							
As of June 30							
PERS Plan 1	2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	0.0052960%	0.0060970%	0.0055760%	0.0057240%	0.005994%	0.004651%	0.005422%
Employer's proportionate share of the net pension liability (asset)	277,030	327,438	264,586	255,636	230,491	164,205	66,215
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%	45.18%	34.39%	33.50%	29.70%	21.14%	7.96%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%	88.74%

Douglas County Sewer District  
Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 2/3							
As of June 30							
PERS Plan 2/3	2015	2016	2017	2018	2019	2020	2021
Employer's proportion of the net pension liability (asset)	0.0068430%	0.0078220%	0.0071720%	0.0073090%	0.0077410%	0.0060880%	0.0069730%
Employer's proportionate share of the net pension liability (asset)	244,504	393,832	249,193	124,795	75,191	77,862	-694,623
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	40.27%	54.34%	32.38%	16.35%	9.69%	10.02%	-83.52%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%	120.29%

Schedule of Employer Contributions  
PERS 1

As of December 31,							
PERS 1	2015	2016	2017	2018	2019	2020	2021
Statutorily or contractually required contributions	29,789	36,500	37,249	38,791	37,546	39,651	37,167
Contributions in relation to the statutorily or contractually required contributions	-29,789	-36,500	-37,249	-38,791	-37,546	-39,651	-37,167
Contribution deficiency (excess)	0	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685
Contributions as a percentage of covered employee payroll	4.40%	4.77%	4.88%	5.06%	4.95%	4.80%	4.30%

Schedule of Employer Contributions  
PERS 2/3

As of December 31,							
PERS Plan 2/3	2015	2016	2017	2018	2019	2020	2021
Statutorily or contractually required contributions	38,268	47,671	51,569	57,457	58,463	65,470	61,904
Contributions in relation to the statutorily or contractually required contributions	-38,268	-47,671	-51,569	-57,457	-58,463	-65,470	-61,904
Contribution deficiency (excess)	0	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685
Contributions as a percentage of covered employee payroll	5.65%	6.23%	6.75%	7.50%	7.71%	7.92%	7.16%

# DOUGLAS COUNTY SEWER DISTRICT NO. 1

## Required Supplementary Information (RSI) - all cost-sharing employers

### Douglas County Sewer District Schedule of Proportionate Share of the Net Pension Liability PERS Plan 1 As of June 30

PERS Plan 1	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.0052960%	0.0060970%	0.0055760%	0.0057240%	0.005994%	0.004651%
Employer's proportionate share of the net pension liability	277,030	327,438	264,586	255,636	230,491	164,205
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%	45.18%	34.39%	33.50%	29.70%	21.14%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%

### Douglas County Sewer District Schedule of Proportionate Share of the Net Pension Liability PERS Plan 2/3 As of June 30

PERS Plan 2/3	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability (asset)	0.0068430%	0.0078220%	0.0071720%	0.0073090%	0.0077410%	0.0060880%
Employer's proportionate share of the net pension liability	244,504	393,832	249,193	124,795	75,191	77,862
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.34%	32.38%	16.35%	9.69%	10.02%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%

### Schedule of Employer Contributions PERS 1

PERS 1	As of December 31, 2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	29,789	36,500	37,249	38,791	37,546	39,651
Contributions in relation to the statutorily or contractually required contributions	-29,789	-36,500	-37,249	-38,791	-37,546	-39,651
Contribution deficiency (excess)	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639
Contributions as a percentage of covered employee payroll	4.40%	4.77%	4.88%	5.06%	4.95%	4.80%

### Schedule of Employer Contributions PERS 2/3

PERS Plan 2/3	As of December 31, 2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	38,268	47,671	51,569	57,457	58,463	65,470
Contributions in relation to the statutorily or contractually required contributions	-38,268	-47,671	-51,569	-57,457	-58,463	-65,470
Contribution deficiency (excess)	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639
Contributions as a percentage of covered employee payroll	5.65%	6.23%	6.75%	7.50%	7.71%	7.92%

## 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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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.

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