



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Skyway Water and Sewer District

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

Published August 3, 2023

Report No. 1033042



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

August 3, 2023

Board of Commissioners
Skyway Water and Sewer District
Seattle, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

Board of Commissioners
Skyway Water and Sewer District
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Skyway Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 28, 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.

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

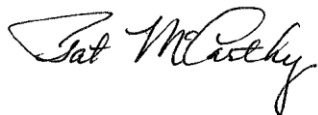
REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

Pat McCarthy, State Auditor

Olympia, WA

July 28, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Board of Commissioners
Skyway Water and Sewer District
Seattle, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the Skyway Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's 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 the Skyway Water and Sewer District, as of December 31, 2021 and 2020, 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 audit 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 audit. 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:

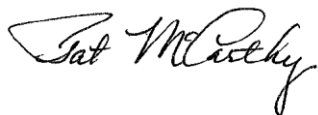
- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 July 28, 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

July 28, 2023

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021 and 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021 and 2020

Statement of Revenues, Expenses and Changes in Net Position – 2021 and 2020

Statement of Cash Flows – 2021 and 2020

Notes to Financial Statements – 2021 and 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021

Schedule of Changes in Total OPEB Liability and Related Ratios – 2021

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Introduction

Skyway Water and Sewer District is a municipal corporation governed by an elected 3 member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries.

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the years ended December 31, 2021 and 2020. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the total assets and deferred outflows of resources and total liabilities and deferred inflows of resources of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to a future period (deferred outflows), obligations to District creditors (liabilities), and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

The statement of cash flows 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 came from and what it was used for.

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

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Condensed Comparative Statement of Net Position

The following condensed statements of net position present an overview of the District's financial position as of December 31, 2021, 2020 and 2019.

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|----------------------|
| <u>Assets</u> | | | |
| Current Assets | \$ 17,109,934 | \$ 15,877,936 | \$ 15,889,663 |
| Noncurrent Assets: | | | |
| Capital Assets - Net | 37,148,362 | 36,555,789 | 33,278,038 |
| Other | <u>764,255</u> | <u>-</u> | <u>-</u> |
| Total Assets | <u>\$ 55,022,551</u> | <u>\$ 52,433,725</u> | <u>\$ 49,167,701</u> |
| <u>Deferred Outflows of Resources</u> | <u>\$ 97,601</u> | <u>\$ 98,410</u> | <u>\$ 76,700</u> |
| <u>Liabilities</u> | | | |
| Current Liabilities | \$ 1,579,526 | \$ 1,371,841 | \$ 1,190,309 |
| Noncurrent Liabilities: | | | |
| Long-Term Debt | 6,277,372 | 7,057,034 | 6,430,908 |
| Other | <u>839,171</u> | <u>1,047,011</u> | <u>901,138</u> |
| Total Liabilities | <u>\$ 8,696,069</u> | <u>\$ 9,475,886</u> | <u>\$ 8,522,355</u> |
| <u>Deferred Inflows of Resources</u> | <u>\$ 797,630</u> | <u>\$ 100,319</u> | <u>\$ 184,721</u> |
| <u>Net Position</u> | | | |
| Net Investment in Capital Assets | \$ 30,972,996 | \$ 29,597,467 | \$ 27,033,180 |
| Restricted for Debt Service | 577,569 | 578,734 | 567,227 |
| Restricted for Net Pension Asset | 123,085 | - | - |
| Unrestricted | <u>13,952,803</u> | <u>12,779,729</u> | <u>12,936,918</u> |
| Total Net Position | <u>\$ 45,626,453</u> | <u>\$ 42,955,930</u> | <u>\$ 40,537,325</u> |

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets include cash and cash equivalents held in various funds, accrued interest receivable, customer and developer accounts receivable, accrued utility revenue, inventories and prepaid expenses. Cash balances in the various funds vary from year to year based on income from operations, capital contributions, expenses paid for operations and construction costs, transfers between funds, borrowings and debt service payments. Total cash and cash equivalents increased by \$1,085,220 in 2021 mainly due to a decrease in spending on construction projects. Customer accounts receivable increased by \$182,820 mainly due to the inability of customers to pay due to the impacts from the COVID-19 pandemic and the associated unemployment rate. Developer accounts receivable decreased by \$29,839. Developer accounts receivable fluctuates based on developer activity in the District and timing of payments.

Accrued interest receivable decreased by \$15,935 in 2020 due to a decrease in interest rates. Customer accounts receivable increased by \$204,682 mainly due to the inability of customers to pay

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

due to the impacts from the COVID-19 pandemic and the associated unemployment rate. Developer accounts receivable decreased by \$32,133 in 2020. Developer accounts receivable fluctuates based on developer activity in the District and timing of payments. The bond interest rebate receivable of \$32,171 reflects the rebate on the December 1, 2020 interest payment that is usually paid to the District in December but was delayed until April of 2021.

Noncurrent assets include net capital assets, which include land, construction work in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets increased by \$592,573 in 2021 mainly due to spending on the Small Diameter Water Main Replacement project and the Skyway Park Pump Station Consolidation project. This increase was offset by depreciation of \$1,205,804. Net capital assets increased by \$3,277,751 in 2020 mainly due to spending on the Skyway Park Pump Station Consolidation project, the Well Improvement Phase 2 project, and the 77th-79th Ave Water Main Replacement project. This increase was offset by depreciation of \$1,192,532.

Noncurrent assets also increased by \$764,255 in 2021 due to an increase in net pension asset.

Deferred Outflows of Resources

Deferred outflows related to pensions did not change significantly in 2021. Deferred outflows related to pensions increased by \$21,472 in 2020, primarily due to an increase in the deferred pension outflows of the pension plan as a whole. In accordance with GASB 75, the District recognized deferred outflows related to other postemployment benefits (OPEB) beginning in 2018. Deferred outflows related to OPEB did not change significantly in 2021 or 2020.

Liabilities

Current liabilities include accounts payable, deposits, retainage due contractors, accrued interest payable on debt, and the current portion of long-term debt. Current liabilities increased by \$207,685 in 2021 primarily due to an increase of \$279,925 in accounts payable, offset by a decrease in retainage due contractors. The increase in accounts payable was the result of an increase in construction accounts payable. Current liabilities increased by \$181,532 in 2020 primarily due to an increase of \$135,473 in retainage due contractors and an increase of \$127,252 in the current portion of Public Works Trust Fund loans, offset by a decrease of \$67,072 in accounts payable. Maintenance and capital improvement accounts payable vary from year to year based on the timing of invoices received from vendors and on the capital projects underway at the time.

Noncurrent liabilities include compensated absences, the net pension liability, total OPEB liability, and the long-term portions of Public Works Trust Fund loans and revenue bonds outstanding. Noncurrent liabilities decreased by \$987,502 in 2021 primarily due to required payments on bond and loan principal made during the year, as well as a decrease in the net pension liability. The District's net pension liability decreased in 2021 because of a decrease in the net pension liability of the pension plan as a whole. Noncurrent liabilities increased by \$771,999 in 2020 primarily due to draws of \$1,591,257 on a Public Works Trust Fund loan, offset by required payments on bond and loan principal made during the year, as well as an increase in the total OPEB liability of \$140,283. The total OPEB liability increased primarily due to changes in experience data and assumptions used to calculate the liability.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Deferred Inflows of Resources

Deferred inflows related to pensions increased by \$697,311 in 2021, primarily due to differences between projected and actual investment earnings on pension plan investments. Deferred inflows related to pensions decreased by \$84,402 in 2020 primarily due to changes in assumptions used to calculate the liability.

Net Position

Net position consists of total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources. Net position increased by \$2,670,523 in 2021. Net position increased by \$2,418,605 in 2020. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|----------------------|
| <u>Revenues</u> | | | |
| Water Service | \$ 2,654,849 | \$ 2,587,583 | \$ 2,523,387 |
| Sewer Service | 6,898,937 | 6,680,819 | 6,268,213 |
| Other Operating Revenue | 51,646 | 44,668 | 179,997 |
| Nonoperating Revenues | <u>82,726</u> | <u>369,054</u> | <u>502,847</u> |
| Total Revenues | <u>\$ 9,688,158</u> | <u>\$ 9,682,124</u> | <u>\$ 9,474,444</u> |
| <u>Expenses</u> | | | |
| Operating Expenses | \$ 5,980,363 | \$ 5,993,786 | \$ 5,682,899 |
| Depreciation and Amortization | 1,205,804 | 1,192,532 | 1,116,812 |
| Nonoperating Expenses | <u>144,700</u> | <u>151,875</u> | <u>154,437</u> |
| Total Expenses | <u>\$ 7,330,867</u> | <u>\$ 7,338,193</u> | <u>\$ 6,954,148</u> |
| Change in Net Position before Capital Contributions | \$ 2,357,291 | \$ 2,343,931 | \$ 2,520,296 |
| Capital Contributions | <u>313,232</u> | <u>74,674</u> | <u>592,254</u> |
| Change in Net Position | \$ 2,670,523 | \$ 2,418,605 | \$ 3,112,550 |
| <u>Total Net Position, January 1</u> | <u>42,955,930</u> | <u>40,537,325</u> | <u>37,424,775</u> |
| <u>Total Net Position, December 31</u> | <u>\$ 45,626,453</u> | <u>\$ 42,955,930</u> | <u>\$ 40,537,325</u> |

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

Revenues

Sewer service revenue increased by \$218,118 in 2021 due to an increase in the King County sewage treatment charge, which is passed on to the customers. Late penalty charges and turn on/turn off charges and fees decreased by \$26,735 in 2021 due to the District's temporary billing and collection policies related to the COVID-19 pandemic. Nonoperating revenues decreased by \$286,328 in 2021

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

due to a decrease in interest on investments. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Sewer service revenue increased by \$412,606 in 2020 due to an 8% local sewer rate increase effective January 1, 2020 in anticipation of future construction projects. Nonoperating revenues decreased by \$133,793 in 2020 primarily due to a decrease in interest on investments. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Expenses

Operating expenses decreased by \$13,423 in 2021. Water purchases increased by \$104,657 due to an increase in usage, as well as an increase in the water rate from the City of Renton. Payroll taxes & benefits decreased by \$335,131 primarily due to the reporting of a net pension asset to reflect that PERS 2/3 is fully funded for the first time.

Operating expenses increased by \$310,887 in 2020. Water purchases increased by \$66,058 due to a water rate increase from the City of Renton. Labor increased by \$148,557 due to a cost-of-living increase of 1.76%, as well as overlapping employees for three months for transition and training purposes. Payroll taxes & benefits increased by \$189,683 primarily due to the increase in the total OPEB liability. Vehicle/Fuel expense decreased by \$25,634 due to staff working from home due to the COVID-19 pandemic, as well as a Vactor truck repair in 2019. Miscellaneous maintenance & operations decreased by \$66,844 because there was an emergency road repair in 2019 due to a water main break. Education expense increased by \$21,075 due to management training classes and commercial driver's license training classes.

Nonoperating expenses consist primarily of interest expense on long-term debt. Interest expense decreased by \$6,624 in 2021 due to the decreasing balance of revenue bonds outstanding. Interest expense decreased by \$3,126 in 2020 due to the decreasing balance of revenue bonds outstanding.

Capital Contributions

Capital contributions increased by \$238,558 in 2021 due to an increase in sewer facilities charges related to new hook-ups. Capital contributions decreased by \$517,580 in 2020 due to a decrease in property deeded to the District by developers. Property deeded to the District by developers varies from year to year depending on the level of developer activity.

Change in Net Position

Net position increased by \$2,670,523 in 2021 and by \$2,418,605 in 2020, reflecting the fact that total revenues exceeded total expenses in both years.

Analysis of Overall Financial Condition

The District's overall financial condition remained strong in 2021 and 2020, with increases in net position, adequate liquid assets and positive operating cash flow.

In order to ensure that the District's financial condition remains strong, a rate increase was enacted effective January 1, 2020 and March 1, 2022.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The net capital assets of the District, after recording depreciation, increased by \$592,573 in 2021. Capital spending in 2021 mainly consisted of a pump station consolidation project and a water main replacement project.

The net capital assets of the District, after recording depreciation, increased by \$3,277,751 in 2020. Capital spending in 2020 mainly consisted of a pump station consolidation project.

Over the next five years it is anticipated that capital spending will be in the range of \$44,304,000. The areas of major emphasis in the capital budget include sewer main replacements, water main replacements, and water reservoir coating.

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

| | <u>Balance</u> <u>12/31/21</u> | <u>Balance</u> <u>12/31/20</u> | <u>Change</u> |
|---------------------------|-----------------------------------|-----------------------------------|--------------------|
| Land | \$ 270,515 | \$ 270,515 | \$ - |
| Construction in Progress | 7,702,184 | 6,024,292 | 1,677,892 |
| Utility Plant | 53,281,170 | 53,197,158 | 84,012 |
| Equipment | 1,153,890 | 1,117,418 | 36,472 |
| Intangibles | 577,669 | 738,118 | (160,449) |
| Accumulated Depreciation | <u>(25,837,066)</u> | <u>(24,791,712)</u> | <u>(1,045,354)</u> |
| Total Capital Assets, Net | <u>\$ 37,148,362</u> | <u>\$ 36,555,789</u> | <u>\$ 592,573</u> |

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

| | <u>Balance</u> <u>12/31/20</u> | <u>Balance</u> <u>12/31/19</u> | <u>Change</u> |
|---------------------------|-----------------------------------|-----------------------------------|---------------------|
| Land | \$ 270,515 | \$ 270,515 | \$ - |
| Construction in Progress | 6,024,292 | 4,699,228 | 1,325,064 |
| Utility Plant | 53,197,158 | 50,103,532 | 3,093,626 |
| Equipment | 1,117,418 | 1,078,104 | 39,314 |
| Intangibles | 738,118 | 738,118 | - |
| Accumulated Depreciation | <u>(24,791,712)</u> | <u>(23,611,459)</u> | <u>(1,180,253)</u> |
| Total Capital Assets, Net | <u>\$ 36,555,789</u> | <u>\$ 33,278,038</u> | <u>\$ 3,277,751</u> |

See Note 3 for more information regarding capital assets.

Skyway Water and Sewer District
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020

Long-Term Debt

At December 31, 2021, the District had total Public Works Trust Fund loans outstanding of \$4,393,144 and total revenue bonds outstanding, including bond premiums, of \$2,746,430. The total long-term debt of the District decreased by \$779,662 during 2021 due to principal payments on long-term debt, offset by a draw of \$90,045 on a Public Works Trust Fund loan.

At December 31, 2020, the District had total Public Works Trust Fund loans outstanding of \$4,960,158 and total revenue bonds outstanding, including bond premiums, of \$2,997,776. The total long-term debt of the District increased by \$626,126 during 2020 due to draws of \$1,591,257 on a Public Works Trust Fund loan, offset by principal payments on long-term debt.

See Note 5 for more information regarding long-term debt.

Skyway Water and Sewer District
Statement of Net Position
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---------------------------------------|----------------------|----------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash & Cash Equivalents | \$ 13,061,370 | \$ 11,970,776 |
| Accrued Interest Receivable | 6,147 | 10,609 |
| Receivables: (Net) | | |
| Customer Accounts Receivable | 763,982 | 581,162 |
| Accrued Utility Revenue | 1,545,619 | 1,539,446 |
| Developer Accounts Receivable | 58,220 | 88,059 |
| Miscellaneous Receivable | 260 | 3,131 |
| Restricted Assets: | | |
| Cash & Cash Equivalents | 1,555,404 | 1,560,778 |
| Accrued Interest Receivable | 255 | 478 |
| Bond Interest Rebate Receivable | - | 32,171 |
| Inventories | 9,394 | 2,996 |
| Prepayments | <u>109,283</u> | <u>88,330</u> |
| Total Current Assets | <u>\$ 17,109,934</u> | <u>\$ 15,877,936</u> |
| <u>Noncurrent Assets</u> | | |
| Net Pension Asset | \$ 764,255 | \$ - |
| Capital Assets Not Being Depreciated: | | |
| Land | 270,515 | 270,515 |
| Construction in Progress | 7,702,184 | 6,024,292 |
| Capital Assets Being Depreciated: | | |
| Plant | 53,281,170 | 53,197,158 |
| Machinery & Equipment | 1,153,890 | 1,117,418 |
| Intangibles | 577,669 | 738,118 |
| Less Accumulated Depreciation | <u>(25,837,066)</u> | <u>(24,791,712)</u> |
| Total Capital Assets | <u>\$ 37,148,362</u> | <u>\$ 36,555,789</u> |
| Total Noncurrent Assets | <u>\$ 37,912,617</u> | <u>\$ 36,555,789</u> |
| Total Assets | <u>\$ 55,022,551</u> | <u>\$ 52,433,725</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | |
| Deferred Outflows Related to Pensions | \$ 92,823 | \$ 95,162 |
| Deferred Outflows Related to OPEB | <u>4,778</u> | <u>3,248</u> |
| Total Deferred Outflows | <u>\$ 97,601</u> | <u>\$ 98,410</u> |

See accompanying notes.

Skyway Water and Sewer District
Statement of Net Position
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities</u> | | |
| Accounts Payable | \$ 406,437 | \$ 126,512 |
| Public Works Trust Fund Loans (Current Portion) | 600,970 | 649,554 |
| Interest Payable - PWTF Loans | 10,983 | 12,219 |
| Taxes Payable | 3,560 | 6,153 |
| Total OPEB Liability (Current Portion) | 9,556 | 6,492 |
| Security Deposits | 53,152 | 53,152 |
| Developer Deposits | 23,730 | 7,717 |
| Retainage Due Contractors | 196,024 | 243,616 |
| Payable from Restricted Assets: | | |
| Revenue Bonds Outstanding, Net of Unamortized | | |
| Bond Premium (Current Portion) | 261,232 | 251,346 |
| Bond Interest Payable | <u>13,882</u> | <u>15,080</u> |
| Total Current Liabilities | <u>\$ 1,579,526</u> | <u>\$ 1,371,841</u> |
| <u>Noncurrent Liabilities</u> | | |
| Public Works Trust Fund Loans | | |
| (Less Current Portion) | \$ 3,792,174 | \$ 4,310,604 |
| Compensated Absences | 166,610 | 149,654 |
| Payable from Restricted Assets: | | |
| Revenue Bonds Outstanding, Net of Unamortized | | |
| Bond Premium (Less Current Portion) | 2,485,198 | 2,746,430 |
| Net Pension Liability | 72,993 | 290,575 |
| Total OPEB Liability (Less Current Portion) | <u>599,568</u> | <u>606,782</u> |
| Total Noncurrent Liabilities | <u>\$ 7,116,543</u> | <u>\$ 8,104,045</u> |
| Total Liabilities | <u>\$ 8,696,069</u> | <u>\$ 9,475,886</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | |
| Deferred Inflows Related to Pensions | <u>\$ 797,630</u> | <u>\$ 100,319</u> |
| <u>NET POSITION</u> | | |
| Net Investment in Capital Assets | \$ 30,972,996 | \$ 29,597,467 |
| Restricted for Debt Service | 577,569 | 578,734 |
| Restricted for Net Pension Asset | 123,085 | - |
| Unrestricted | <u>13,952,803</u> | <u>12,779,729</u> |
| Total Net Position | <u>\$ 45,626,453</u> | <u>\$ 42,955,930</u> |

See accompanying notes.

Skyway Water and Sewer District
Statement of Revenues, Expenses and Changes in Fund Net Position
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| <u>Operating Revenues</u> | | |
| Water Service | \$ 2,654,849 | \$ 2,587,583 |
| Sewer Service | 6,898,937 | 6,680,819 |
| Late Penalty Charges | - | 21,905 |
| Turn On/Turn Off Charges & Fees | 150 | 4,980 |
| Miscellaneous Account Fees | 4,854 | 4,584 |
| Availability Certificates, Permits & Misc. Fees | 46,020 | 11,450 |
| Interest on Liens | <u>622</u> | <u>1,749</u> |
| Total Operating Revenues | \$ 9,605,432 | \$ 9,313,070 |
| <u>Operating Expenses</u> | | |
| Maintenance & Operations (Schedule I) | \$ 4,569,782 | \$ 4,486,810 |
| Administrative & General (Schedule I) | 1,410,581 | 1,506,976 |
| Depreciation & Amortization | <u>1,205,804</u> | <u>1,192,532</u> |
| Total Operating Expenses | <u>\$ 7,186,167</u> | <u>\$ 7,186,318</u> |
| Operating Income | \$ 2,419,265 | \$ 2,126,752 |
| <u>Nonoperating Revenues (Expenses)</u> | | |
| Interest on Investments | \$ (45,042) | \$ 243,340 |
| Gain (Loss) on Disposal of Assets | - | (424) |
| Investment Service Fees | (1,752) | (1,879) |
| Interest Expense | (142,298) | (148,922) |
| Tower Rental | 127,768 | 121,373 |
| Parking Lot Rental | - | 4,341 |
| Bond Fund Service Fees | <u>(650)</u> | <u>(650)</u> |
| Total Nonoperating Revenues (Expenses) | <u>\$ (61,974)</u> | <u>\$ 217,179</u> |
| Income Before Contributions | \$ 2,357,291 | \$ 2,343,931 |
| Capital Contributions | <u>313,232</u> | <u>74,674</u> |
| Change in Net Position | \$ 2,670,523 | \$ 2,418,605 |
| <u>Total Net Position, January 1</u> | <u>42,955,930</u> | <u>40,537,325</u> |
| <u>Total Net Position, December 31</u> | <u>\$ 45,626,453</u> | <u>\$ 42,955,930</u> |

See accompanying notes.

Skyway Water and Sewer District
Statement of Cash Flows
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| <u>Cash Flows From Operating Activities</u> | | |
| Receipts from Customers | \$ 9,547,078 | \$ 9,092,011 |
| Payments to Suppliers | (4,948,071) | (4,689,250) |
| Payments to Employees | <u>(1,276,269)</u> | <u>(1,317,852)</u> |
| Net Cash Provided by Operating Activities | <u>\$ 3,322,738</u> | <u>\$ 3,084,909</u> |
| <u>Cash Flows From Capital & Related Financing Activities</u> | | |
| Acquisition & Construction of Capital Assets | \$ (1,622,922) | \$ (4,288,182) |
| Proceeds from Public Works Trust Fund Loan | 90,045 | 1,591,257 |
| Principal Payments on Public Works Trust Fund Loans | (657,059) | (586,536) |
| Principal Payments on Revenue Bonds | (250,000) | (240,000) |
| Capital Contributions | 359,084 | 18,432 |
| Interest Paid on Revenue Bonds & Public Works Trust Fund Loans | <u>(114,557)</u> | <u>(181,743)</u> |
| Net Cash Provided (Used) by Capital & Related Financing Activities | <u>\$ (2,195,409)</u> | <u>\$ (3,686,772)</u> |
| <u>Cash Flows From Investing Activities</u> | | |
| Interest Received on Investments | \$ 98,981 | \$ 211,912 |
| Adjustment to Fair Market Value of Investments | (139,338) | 48,038 |
| Investment Service Fees | <u>(1,752)</u> | <u>(1,879)</u> |
| Net Cash Provided (Used) by Investing Activities | <u>\$ (42,109)</u> | <u>\$ 258,071</u> |
| Net Increase (Decrease) in Cash & Cash Equivalents | \$ 1,085,220 | \$ (343,792) |
| <u>Cash & Cash Equivalents - January 1</u> | <u>\$ 13,531,554</u> | <u>\$ 13,875,346</u> |
| <u>Cash & Cash Equivalents - December 31</u> | <u>\$ 14,616,774</u> | <u>\$ 13,531,554</u> |
| <u>Noncash Investing, Capital and Financing Activities</u> | | |
| Contributions of Capital Assets from Developers | \$ - | \$ 61,289 |
| Book Value of Plant Removals | <u>\$ -</u> | <u>\$ 424</u> |

See accompanying notes.

Skyway Water and Sewer District
Statement of Cash Flows
Years Ended December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------|----------------|
| <u>Reconciliation of Operating Income (Loss)</u> <u>to Net Cash Provided by Operating Activities</u> | | |
| Operating Income | \$ 2,419,265 | \$ 2,126,752 |
| <u>Adjustments to Reconcile Operating Income</u> <u>to Net Cash Provided by Operating Activities:</u> | | |
| Depreciation & Amortization | \$ 1,205,804 | \$ 1,192,532 |
| Rental Income | 127,768 | 125,714 |
| <u>Changes in Assets, Deferred Outflows of Resources,</u> <u>Liabilities, & Deferred Inflows of Resources:</u> | | |
| (Increase) Decrease in Accounts Receivable | (182,820) | (204,682) |
| (Increase) Decrease in Accrued Revenue | (6,173) | (138,960) |
| (Increase) Decrease in Miscellaneous Receivables | 2,871 | (3,131) |
| (Increase) Decrease in Prepayments | (20,953) | (1,864) |
| (Increase) Decrease in Inventories | (6,398) | - |
| (Increase) Decrease in Net Pension Asset | (764,255) | - |
| (Increase) Decrease in Deferred Outflows Related to Pensions | 2,339 | (21,472) |
| (Increase) Decrease in Deferred Outflows Related to OPEB | (1,530) | (238) |
| Increase (Decrease) in Accounts Payable | 56,878 | (52,832) |
| Increase (Decrease) in Taxes Payable | (2,593) | 1,151 |
| Increase (Decrease) in Security Deposits | - | - |
| Increase (Decrease) in Compensated Absences | 16,956 | 640 |
| Increase (Decrease) in Deferred Inflows Related to Pensions | 697,311 | (84,402) |
| Increase (Decrease) in Net Pension Liability | (217,582) | 4,950 |
| Increase (Decrease) in Total OPEB Liability | <u>(4,150)</u> | <u>140,751</u> |
| Total Adjustments | \$ 903,473 | \$ 958,157 |
| Net Cash Provided by Operating Activities | \$ 3,322,738 | \$ 3,084,909 |

See accompanying notes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Skyway Water and Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Skyway Water and Sewer District is a municipal corporation governed by an elected three-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

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

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales, sewer collections, and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

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

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the developer's cost. Depreciation is computed on the straight-line method with the following useful lives:

| | |
|-----------------------|--------------|
| Utility Plant | 5 - 50 years |
| Machinery & Equipment | 5 - 10 years |
| Intangibles | 5 - 20 years |

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and Public Works Trust Fund loan agreements separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service and other special reserve requirements.

| | <u>12/31/21</u> | <u>12/31/20</u> |
|--------------------|-----------------|-----------------|
| Construction Funds | \$ 964,208 | \$ 967,441 |
| Bond Reserve Funds | 591,196 | 593,337 |

Assets and liabilities shown as current in the accompanying statement of net position exclude current maturities on defeased revenue bonds and accrued interest thereon because debt service funds have been set aside for their payment.

f. Receivables

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

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis, and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at market value. See Note 2.

i. 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 when incurred. Vacation pay accumulated by an employee is payable upon termination of employment. Employees can carry over from one year to the next 50% of the vacation hours they earned in the prior year. Sick leave can accumulate up to 720 hours. Any excess over 720 hours will be cashed out and paid directly to the employee's medical savings account. Upon separation from service the entire accumulated and unused sick leave will be payable to the employee's medical savings account. When employees work overtime, they have the choice of being paid or receiving comp time. Comp time can accrue up to 80 hours, with a maximum of 40 hours carrying over from one year to the next. Upon separation from service the unused comp time is cashed out and paid to the employee.

j. 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

k. Subsequent Events

Management has evaluated subsequent events through May 29, 2022, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2021 and 2020 are listed below:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Petty Cash | \$ 600 | \$ 600 |
| Bank Checking Account | 8,721 | 5,755 |
| Investment in King County Investment Pool | <u>14,607,453</u> | <u>13,525,199</u> |
| Total Cash & Investments | <u>\$ 14,616,774</u> | <u>\$ 13,531,554</u> |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

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

As of December 31, 2021, the District had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Effective Duration</u> |
|-----------------------------|-------------------|---------------------------|
| King County Investment Pool | \$ 14,607,453 | 1.24 Years |

Impaired Investments. As of December 31, 2021, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired investment pool principal is \$2,526, and the District's fair value of these investments is \$1,598.

Interest Rate Risk. As of December 31, 2021, the Pool's average duration was 1.24 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2021, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Investment in King County Investment Pool by Fund

| | <u>12/31/21</u> | <u>12/31/20</u> |
|---|----------------------|----------------------|
| Maintenance Fund | \$ 3,533,137 | \$ 3,014,734 |
| Capital Improvements Fund | 9,311,365 | 8,837,249 |
| Construction Funds | 1,171,755 | 1,079,879 |
| Revenue Bond Fund | <u>591,196</u> | <u>593,337</u> |
| Total Investment in King County Investment Pool | <u>\$ 14,607,453</u> | <u>\$ 13,525,199</u> |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Investments Measured at Fair Value

The District measures and reports investments at fair market 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 or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2021, the District had the following investments measured at fair value:

- Investments in the King County Investment Pool are valued using quoted market prices (Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|--------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 270,515 | \$ - | \$ - | \$ 270,515 |
| Construction in Progress | <u>6,024,292</u> | <u>1,726,491</u> | <u>(48,599)</u> | <u>7,702,184</u> |
| <u>Total capital assets not being depreciated</u> | <u>6,294,807</u> | <u>1,726,491</u> | <u>(48,599)</u> | <u>7,972,699</u> |
| Capital assets being depreciated: | | | | |
| Plant | 53,197,158 | 84,013 | - | 53,281,170 |
| Machinery & Equipment | 1,117,418 | 36,471 | - | 1,153,890 |
| Intangibles | <u>738,118</u> | <u>-</u> | <u>(160,449)</u> | <u>577,669</u> |
| <u>Total capital assets being depreciated</u> | <u>55,052,694</u> | <u>120,484</u> | <u>(160,449)</u> | <u>55,012,729</u> |
| Less Accumulated Depreciation | <u>24,791,712</u> | <u>1,205,803</u> | <u>(160,449)</u> | <u>25,837,066</u> |
| <u>Total capital assets being depreciated, net</u> | <u>30,260,982</u> | <u>(1,085,319)</u> | <u>-</u> | <u>29,175,663</u> |
| <u>TOTAL CAPITAL ASSETS, NET</u> | <u>\$ 36,555,789</u> | <u>\$ 641,172</u> | <u>\$ (48,599)</u> | <u>\$ 37,148,362</u> |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 3 - CAPITAL ASSETS (Continued)

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

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 270,515 | \$ - | \$ - | \$ 270,515 |
| Construction in Progress | <u>4,699,228</u> | <u>4,345,017</u> | <u>(3,019,953)</u> | <u>6,024,292</u> |
| <u>Total capital assets not being depreciated</u> | <u>4,969,743</u> | <u>4,345,017</u> | <u>(3,019,953)</u> | <u>6,294,807</u> |
| Capital assets being depreciated: | | | | |
| Plant | 50,103,532 | 3,093,626 | - | 53,197,158 |
| Machinery & Equipment | 1,078,104 | 52,016 | (12,702) | 1,117,418 |
| Intangibles | <u>738,118</u> | <u>-</u> | <u>-</u> | <u>738,118</u> |
| <u>Total capital assets being depreciated</u> | <u>51,919,754</u> | <u>3,145,642</u> | <u>(12,702)</u> | <u>55,052,694</u> |
| Less Accumulated Depreciation | <u>23,611,459</u> | <u>1,192,532</u> | <u>(12,279)</u> | <u>24,791,712</u> |
| <u>Total capital assets being depreciated, net</u> | <u>28,308,295</u> | <u>1,953,110</u> | <u>(423)</u> | <u>30,260,982</u> |
| <u>TOTAL CAPITAL ASSETS, NET</u> | <u>\$ 33,278,038</u> | <u>\$ 6,298,127</u> | <u>\$ (3,020,376)</u> | <u>\$ 36,555,789</u> |

The District capitalizes employee wage and benefit costs in connection with construction of the utility plant. In 2021 the total wage and benefit costs were \$1,037,624 of which \$34,859 was capitalized. In 2020 the total wage and benefit costs were \$1,367,065 of which \$7,833 was capitalized.

The practice of the District is to use a capitalization threshold of \$1,000.

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$13,406,000. Of the committed balance of \$5,703,816, the District will not be required to raise any future financing.

| | <u>Project Estimate</u> | <u>Expended to 12/31/21</u> | <u>Remaining</u> | <u>Required Future Financing</u> |
|--|-----------------------------|---------------------------------|---------------------|--|
| Geographic Information System | \$ 30,000 | \$ 22,267 | \$ 7,733 | \$ - |
| Construction Guidelines | 30,000 | 28,948 | 1,052 | - |
| Automatic Meter Reading | 1,220,000 | 653,810 | 566,190 | - |
| Water System Model Update | 5,000 | 12,314 | (7,314) | - |
| Tanks #3 & #4 Coating Replacement | 880,000 | 1,558 | 878,442 | - |
| Rainier Ave S - S 113 th St Water Main Replacement | 950,000 | 29,225 | 920,775 | - |
| Small Diameter Water Main Replacement | 2,864,000 | 851,786 | 2,012,214 | - |
| NW 7 th Water Main Replacement | 50,000 | 13,581 | 36,419 | - |
| District Wide Lift Stn Consol. Study | 42,000 | 41,847 | 153 | - |
| Sewer Telemetry | 225,000 | 167,685 | 57,315 | - |
| Skyway Park North Phase 1 | 450,000 | 352,740 | 97,260 | - |
| Sunset Force Main Replacement | 485,000 | 28,193 | 456,807 | - |
| First Cities Pump Station Upgrade | 315,000 | 111,589 | 203,411 | - |
| Skyway Park Area Lift Station | <u>5,860,000</u> | <u>5,386,641</u> | <u>473,359</u> | - |
| | <u>\$13,406,000</u> | <u>\$7,702,184</u> | <u>\$ 5,703,816</u> | <u>\$ -</u> |

NOTE 5 - LONG-TERM DEBT

a. Revenue Bonds

A summary of bonds outstanding at December 31, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| 2010 Series A Water & Sewer Revenue Bonds, 2.347% - 6.301%, maturing serially through 2030 | | |
| Original debt: \$5,150,000 | \$ 2,740,000 | \$ 2,990,000 |
| | \$ 2,740,000 | \$ 2,990,000 |
| Unamortized Bond Premium | <u>6,430</u> | <u>7,776</u> |
| | <u>\$ 2,746,430</u> | <u>\$ 2,997,776</u> |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 5 - LONG-TERM DEBT (Continued)

a. Revenue Bonds (Continued)

The principal and interest on water and sewer revenue bonds are payable from and secured by a pledge of net operating revenues, collection of Utility Local Improvement District assessments, if any, including interest thereon, Federal Credit Payments on the 2010 Series A “Build America Bonds”, and certain money and investments held in the Bond Fund. The 2010 Series A bonds are “Build America Bonds”. The District will be allowed a credit payable by the United States Treasury in an amount equal to 35% of the interest payable on the bonds on each interest payment date. (See Note 11).

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2022 | \$ 260,000 | \$ 166,586 | \$ 426,586 |
| 2023 | 270,000 | 151,636 | 421,636 |
| 2024 | 280,000 | 136,111 | 416,111 |
| 2025 | 290,000 | 120,011 | 410,011 |
| 2026 | 300,000 | 103,336 | 403,336 |
| 2027 - 2030 | <u>1,340,000</u> | <u>215,181</u> | <u>1,555,181</u> |
| | <u>\$ 2,740,000</u> | <u>\$ 892,861</u> | <u>\$ 3,632,861</u> |

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

| | <u>12/31/21</u> | <u>12/31/20</u> |
|--|-----------------|-----------------|
| 2001 loan - payable at \$56,088 annually through the year 2021, plus interest at ½% per annum | | |
| Original debt: \$1,051,644 | \$ - | \$ 56,088 |
| 2004 loan - payable at \$217,800 annually through the year 2024, plus interest at ½% per annum | | |
| Original debt: \$4,114,000 | 653,400 | 871,200 |
| 2005 loan - payable at \$59,851 annually through the year 2025, plus interest at ½% per annum | | |
| Original debt: \$1,130,526 | 239,406 | 299,257 |
| 2009 loan - payable at \$18,724 annually through the year 2029, plus interest at ½% per annum | | |
| Original debt: \$416,854 | 149,792 | 168,516 |

Skyway Water and Sewer District
Notes to Financial Statements
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NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans (Continued)

| | | |
|--|---------------------|---------------------|
| 2013 loan - payable at \$152,809 annually through the year 2032, plus interest at ½% per annum | | |
| Original debt: \$1,825,955 | 1,680,903 | 1,743,668 |
| 2013 loan - payable at \$151,786 annually through the year 2032, plus interest at ½% per annum | | |
| Original debt: \$2,125,000 | <u>1,669,643</u> | <u>1,821,429</u> |
| | <u>\$ 4,393,144</u> | <u>\$ 4,960,158</u> |

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2021, including interest, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|-------------------|---------------------|
| 2022 | \$ 600,970 | \$ 21,966 | \$ 622,936 |
| 2023 | 600,970 | 18,961 | 619,931 |
| 2024 | 600,970 | 15,956 | 616,926 |
| 2025 | 383,170 | 12,951 | 396,121 |
| 2026 | 323,319 | 11,035 | 334,354 |
| 2027 - 2031 | 1,579,150 | 31,021 | 1,610,171 |
| 2032 | <u>304,595</u> | <u>1,523</u> | <u>306,118</u> |
| | <u>\$ 4,393,144</u> | <u>\$ 113,413</u> | <u>\$ 4,506,557</u> |

On October 28, 2021, the District was awarded a Public Works Trust Fund Loan in the amount of \$8,317,000 to fund the Skyway Park North Phase 1 Sewer Replacement project. On October 28, 2021, the District was awarded a Public Works Trust Fund Loan in the amount of \$620,000 to fund the Rainier Ave S & S 113th St Water Main Replacement project. As of December 31, 2021, the District had not taken any draws on either of these loans.

c. Changes in Long-Term Liabilities

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

| | <u>Balance 1/1/21</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 12/31/21</u> | <u>Due Within One Year</u> |
|-------------------------------|---------------------------|-------------------|-----------------------|-----------------------------|--------------------------------|
| Revenue Bonds | | | | | |
| Payable | \$ 2,990,000 | \$ - | \$ (250,000) | \$ 2,740,000 | \$ 260,000 |
| Unamortized Bond Premium | 7,776 | - | (1,346) | 6,430 | 1,232 |
| Public Works Trust Fund Loans | 4,960,158 | 90,045 | (657,059) | 4,393,144 | 600,970 |
| Compensated Absences | 149,654 | 16,956 | - | 166,610 | - |
| Net Pension Liability | 290,575 | - | (217,582) | 72,993 | - |
| Total OPEB Liability | <u>613,274</u> | <u>-</u> | <u>(4,150)</u> | <u>609,124</u> | <u>9,556</u> |
| Totals | <u>\$ 9,011,437</u> | <u>\$ 107,001</u> | <u>\$ (1,130,137)</u> | <u>\$ 7,988,301</u> | <u>\$ 871,758</u> |

Skyway Water and Sewer District
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NOTE 6 - LEASE COMMITMENTS

The District has entered into six long-term operating lease agreements, as the lessor. The leases are with telecommunications companies and allow them to mount antennas on the District's water towers. The District has also entered into a lease, as the lessor of a portion of its real property. As of December 31, 2021, two of the leases had expired, and the lessees were paying on a month-to-month basis. The other leases have termination dates ranging from September 7, 2022 to January 31, 2043 with options to renew for additional five-year terms.

Future minimum rents receivable are as follows:

| | |
|-------------|-------------------|
| 2022 | \$ 100,394 |
| 2023 | 73,253 |
| 2024 | 60,110 |
| 2025 | 38,966 |
| 2026 | 24,890 |
| 2027 - 2031 | 78,694 |
| 2032 - 2036 | 91,225 |
| 2037 - 2041 | 105,756 |
| 2042 - 2043 | <u>46,879</u> |
| | <u>\$ 620,167</u> |

NOTE 7 - PENSION PLAN

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

| Aggregate Pension Amounts - All Plans | |
|--|-------------|
| Pension liabilities | \$72,993 |
| Pension assets | \$764,255 |
| Deferred outflows of resources | \$92,823 |
| Deferred inflows of resources | \$797,630 |
| Pension expense/expenditures | \$(174,689) |

State Sponsored Pension Plans

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

NOTE 7 - PENSION PLAN (Continued)

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

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 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.

Skyway Water and Sewer District
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NOTE 7 - PENSION PLAN (Continued)

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:

| PERS Plan 1 | | |
|----------------------------------|-----------------|-----------------|
| Actual Contribution Rates | Employer | Employee |
| January - June 2021: | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.87% | |
| Administrative Fee | 0.18% | |
| Total | 12.97% | 6.00% |
| July - December 2021: | | |
| PERS Plan 1 | 10.07 | 6.00% |
| Administrative Fee | 0.18% | |
| Total | 10.25% | 6.00% |

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

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NOTE 7 - PENSION PLAN (Continued)

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 | | |
|----------------------------------|---------------------|-------------------|
| Actual Contribution Rates | Employer 2/3 | Employee 2 |
| January - June 2021: | | |
| PERS Plan 2/3 | 7.92% | 7.90% |
| PERS Plan 1 UAAL | 4.87% | |
| Administrative Fee | 0.18% | |
| Employee PERS Plan 3 | | Varies |
| Total | 12.97% | 7.90% |
| July - 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 |
| Total | 10.25% | 6.36% |

The District's actual contributions to the plan were \$39,705 to PERS Plan 1 and \$66,100 to PERS Plan 2/3 for the year ended December 31, 2021.

NOTE 7 - PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic 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-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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.

NOTE 7 - PENSION PLAN (Continued)

Discount Rate

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

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

| 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 Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability (asset) 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.

Skyway Water and Sewer District
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NOTE 7 - PENSION PLAN (Continued)

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|----------|-------------------------------|---|-------------------------------|
| PERS 1 | \$124,348 | \$72,993 | \$28,206 |
| PERS 2/3 | \$(217,721) | \$(764,255) | \$(1,214,325) |

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 District reported its proportionate share of the net pension liabilities (assets) as follows:

| | Liability (or Asset) |
|----------|-----------------------------|
| PERS 1 | \$72,993 |
| PERS 2/3 | \$(764,255) |

At June 30, 2021 the District's proportionate share of the collective net pension liabilities (assets) was as follows:

| | Proportionate Share 6/30/20 | Proportionate Share 6/30/21 | Change in Proportion |
|----------|--|--|---------------------------------|
| PERS 1 | .005583% | .005977% | .000394% |
| PERS 2/3 | .007308% | .007672% | .000364% |

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 District recognized pension expense as follows:

| | Pension Expense |
|----------|------------------------|
| PERS 1 | \$943 |
| PERS 2/3 | \$(175,632) |
| TOTAL | \$(174,689) |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 - PENSION PLAN (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ - |
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$(80,998) |
| Changes of assumptions | \$ - | \$ - |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ - | \$ - |
| Contributions subsequent to the measurement date | \$17,361 | \$ - |
| TOTAL | \$17,361 | \$(80,998) |

| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$37,119 | \$(9,369) |
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$(638,738) |
| Changes of assumptions | \$1,117 | \$(54,275) |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$7,463 | \$(14,250) |
| Contributions subsequent to the measurement date | \$29,763 | \$ - |
| TOTAL | \$75,462 | \$(716,632) |

| All Plans | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$37,119 | \$(9,369) |
| Net difference between projected and actual investment earnings on pension plan investments | \$ - | \$(719,736) |
| Changes of assumptions | \$1,117 | \$(54,275) |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$7,463 | \$(14,250) |
| Contributions subsequent to the measurement date | \$47,124 | \$ - |
| TOTAL | \$92,823 | \$(797,630) |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 7 - PENSION PLAN (Continued)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS 1 |
|------------------------------------|---------------|
| 2022 | \$(21,456) |
| 2023 | \$(19,662) |
| 2024 | \$(18,591) |
| 2025 | \$(21,289) |
| 2026 | \$ - |
| Thereafter | \$ - |

| Year ended December 31: | PERS 2 & 3 |
|------------------------------------|-----------------------|
| 2022 | \$(178,044) |
| 2023 | \$(166,568) |
| 2024 | \$(158,362) |
| 2025 | \$(168,488) |
| 2026 | \$(831) |
| Thereafter | \$1,360 |

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year ended December 31, 2021:

| Aggregate OPEB Amounts - All Plans | |
|---|-----------|
| OPEB liabilities | \$609,124 |
| OPEB assets | \$ - |
| Deferred outflows of resources | \$4,778 |
| Deferred inflows of resources | \$ - |
| OPEB expense/expenditures | \$4,617 |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Description

The District is a participating employer in the State of Washington's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The plan provides other post-employment benefits (OPEB) through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately.

Employees covered by benefit terms: At December 31, 2021, the following employees were covered by the benefit terms:

| | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 3 |
| Inactive employees entitled to but not yet receiving benefits | - |
| Active employees | 10 |
| Total | 13 |

Assumptions and Other Inputs

The District's total OPEB liability was measured as of June 30, 2021 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Office of the State Actuary.

| | |
|---|--|
| Methodology: | |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Recognized Immediately |
| Asset Valuation Method | N/A (No Assets) |
| Assumptions: | |
| Discount Rate - Beginning of Measurement Yr | 2.21% |
| Discount Rate - End of Measurement Yr | 2.16% |
| Projected Salary Changes | 3.5% + Service-Based Increases |
| Healthcare Trend Rates | Initial rate ranges from 2-11%, reaching an ultimate rate of approx. 4.3% in 2075. |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

| | |
|--|-------------------------|
| Mortality Rates: | |
| Base Mortality Table | PubG.H-2010 (General) |
| Age Setback | 0 year |
| Mortality Improvements | MP-2017 Long-Term Rates |
| Projection Period | Generational |
| Inflation Rate | 2.75% |
| Post-Retirement Participation Percentage | 65% |
| Percentage with Spouse Coverage | 45% |

The source of the discount rate is the Bond Buyer General Obligation 20-Bond Municipal Index. Healthcare trend rate assumptions vary by medical plan. For additional details on the healthcare trend rates, see Office of the State Actuary's 2020 PEBB OPEB Actuarial Valuation Report.

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

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|----------------------|-------------|--|-------------|
| Total OPEB Liability | \$499,789 | \$609,124 | \$752,619 |

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

| | 1% Decrease | Current Discount Rate | 1% Increase |
|----------------------|-------------|--------------------------|-------------|
| Total OPEB Liability | \$731,416 | \$609,124 | \$512,657 |

Changes in the Total OPEB Liability

| | |
|---|------------|
| Total OPEB Liability - January 1, 2021 | \$613,274 |
| Service Cost | \$25,737 |
| Interest | \$14,026 |
| Changes in Experience Data & Assumptions | \$(35,146) |
| Benefit Payments | \$(8,767) |
| Total OPEB Liability - December 31, 2021 | \$609,124 |

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

The District recognized OPEB expense for the year ended December 31, 2021 as follows:

| | |
|--|----------------|
| Service Cost | \$25,737 |
| Interest Cost | \$14,026 |
| Changes in Experience Data & Assumptions | \$(35,146) |
| Changes in Benefit Terms | \$ - |
| Total OPEB Expense | \$4,617 |

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ - |
| Changes in experience data & assumptions | \$ - | \$ - |
| Payments subsequent to the measurement date | \$4,778 | \$ - |
| TOTAL | \$4,778 | \$ - |

Deferred outflows of resources of \$4,778 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2022.

NOTE 9 - RISK MANAGEMENT

The District is member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 72 members. The Pool's fiscal year is November 1st through October 31st.

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

Skyway Water and Sewer District
Notes to Financial Statements
December 31, 2021 and 2020

NOTE 9 - RISK MANAGEMENT (Continued)

Officials Liability; Employment Practices Liability; Cyber Liability; Identity Fraud Reimbursement Program and bonds of various types. Most coverages are on an “occurrence” basis.

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

| TYPE OF COVERAGE | MEMBER DEDUCTIBLE | SELF-INSURED RETENTION/GROUP | EXCESS LIMITS |
|---|---|--|---|
| Property Loss: | | | |
| Buildings and Contents | \$1,000 - \$25,000 and See (C) below | \$25,000 | \$275,000,000 |
| Flood | See (A) below | See (A) below | \$25,000,000 |
| Earthquake | See (B) below | See (B) below | \$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau) |
| Terrorism | \$1,000 - \$25,000 | \$25,000 Primary layer | \$700,000,000 Primary layer |
| Boiler & Machinery | \$1,000 - \$350,000 depending on object | \$25,000 - \$350,000 depending on object | \$100,000,000 |
| Auto - Physical Damage | \$1,000 - \$25,000 | \$25,000 | |
| | | | |
| Liability: | | | |
| Commercial General Liability | \$1,000 - \$25,000 | \$500,000 | \$10,000,000 |
| Auto Liability | \$1,000 - \$25,000 | Same as above | \$10,000,000 |
| Public Officials Errors and Omissions | \$1,000 - \$25,000 | Same as above | \$10,000,000 |
| Employment Practices | \$1,000 - \$25,000 | Same as above | \$10,000,000 |
| Other: | | | |
| Cyber Liability | \$50,000 | N/A | \$2,000,000 |
| Public Officials Bonds | Various | N/A | Various |
| Crime | \$1,000 - \$25,000 | \$25,000 | \$2,000,000 |
| Identity Fraud | \$0 | \$0 | \$25,000 |
| A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible, per occurrence, in Flood Zones A&V. | | | |
| B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum. | | | |
| C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy’s required 8 hour waiting period. | | | |

NOTE 9 - RISK MANAGEMENT (Continued)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2022, written notice must be in the possession of the Pool by April 30, 2022). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

For years ending December 31, 2019, 2020, and 2021, the District had no claims in excess of their insurance coverage.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Reservoir Lease

The District has entered into an agreement with Water District No. 125 of King County for the joint lease, construction and operation of a 1.3 million gallon reservoir. Skyway Water & Sewer District shall own the real property, reservoir, main booster pump station, transmission lines, including intertie flow meters and system telemetry and pressure reducing station. The District is leasing a 25% interest in the facilities to Water District No. 125 for 50 years beginning November 1, 1996. Water District No. 125 will pay 25% of direct costs of maintaining the facilities and 25% of overhead incurred by Skyway Water and Sewer District in administering them.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Joint Municipal Utility Services Agreement

On April 1, 1999, the District entered into an Interlocal Contract with other water providers in the region to create the Cascade Water Alliance (CWA). The purpose of CWA is to provide a safe, reliable and high-quality water supply to meet the current and projected demands of the CWA Members in a coordinated, cost-effective, and environmentally sensitive manner. As of December 31, 2021, CWA consisted of seven Members. CWA is governed by a Board of Directors consisting of one individual representative appointed by resolution of the Member's legislative authority. Each Member entity must pay annual dues based on the number of residential units served by the water system within their jurisdiction.

The District paid dues of \$76,684 to CWA in 2021 and paid dues of \$75,729 to CWA in 2020. The District also paid CWA \$33,921 in Regional Capital Facilities Charges in 2021 for new residential and commercial hookups to the water distribution system. The District paid CWA \$6,607 in Regional Capital Facilities Charges in 2020.

A Member may withdraw from CWA with a resolution of its legislative authority expressing such intent. The CWA board will then determine the withdrawing Member's allocable share of the then-existing obligations of CWA, as well as the withdrawing Member's obligations to CWA. The Member's withdrawal shall be effective on payment of such allocable share and obligations. Members do not hold legal ownership rights in any assets owned by CWA.

Audited financial statements can be obtained from the Cascade Water Alliance, 520 112th Avenue NE, Suite 400, Bellevue, WA 98004.

NOTE 11 - BUILD AMERICA BONDS SEQUESTRATION

On March 1, 2013 the sequestration provision of the Budget Control Act of 2011 went into effect. As a result, the federal subsidy payments of 35% of the interest paid on the 2010 Series A Build America Bonds were reduced. There was a 5.7% reduction to the 35% interest rebate rate on the June 1, 2021 interest payment. This reduction was in the amount of \$1,805. There was a 5.7% reduction to the 35% interest rebate rate on the December 1, 2021 interest payment. This reduction was in the amount of \$1,805. There was a 5.9% reduction to the 35% interest rebate rate on the June 1, 2020 interest payment. This reduction was in the amount of \$1,992. There was a 5.7% reduction to the 35% interest rebate rate on the December 1, 2020 interest payment. This reduction was in the amount of \$1,924. Similar reductions will occur in future years unless Congress takes action.

NOTE 12 - USE OF ESTIMATES

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

NOTE 13 - COVID-19 PANDEMIC

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

The District implemented temporary billing and collection policies effective March 24, 2020. During the state declaration of emergency, the District suspended utility shut-offs, late charges, and lien interest charges. If the District became aware of a residence which is legally occupied and service is currently locked off, service were restored in accordance with current restoration protocols. Customer accounts continued accruing a balance outside of these fees being suspended. Furthermore, customers who applied for and are determined eligible for the discount rate program had the discount rate applied retroactively to service charges beginning March 1, 2020.

The District's temporary billing and collection policies related to water and sewer (including suspension of water service terminations and the accumulation of interest and penalties on unpaid water and sewer bills) expired on December 31, 2021. Effective January 1, 2022, the District's standard policies for non-payment, late fees and liens are reinstated. From November 15, 2021 through January 31, 2022, customers who were unable to pay their bills for water and/or sewer service in a timely manner due to the impact of COVID-19 could apply for extended payment arrangements for a period not to exceed one (1) year. For extenuating circumstances, the District General Manager had the authority to approve longer-term payment arrangements of up to eighteen (18) months.

The full extent of the direct or indirect financial impact on the District is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE VI

Skyway Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last 10 Fiscal Years

| PERS 1 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 20XX | 20XX | 20XX |
|--|------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------|------|
| Employer's proportion of the net pension liability (asset) | % | 0.005977% | 0.005583% | 0.005602% | 0.005746% | 0.006060% | 0.006291% | 0.005948% | | |
| Employer's proportionate share of the net pension liability | \$ | 72,993 | 197,110 | 215,417 | 256,618 | 287,552 | 337,856 | 311,136 | | |
| TOTAL | \$ | 72,993 | 197,110 | 215,417 | 256,618 | 287,552 | 337,856 | 311,136 | | |
| Covered payroll | \$ | 917,596 | 850,054 | 785,516 | 792,025 | 767,341 | 748,270 | 681,838 | | |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | % | 7.95% | 23.19% | 27.42% | 32.40% | 37.47% | 45.15% | 45.63% | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 88.74% | 68.64% | 67.12% | 63.22% | 61.24% | 57.03% | 59.10% | | |
| PERS 2/3 | | | | | | | | | | |
| Employer's proportion of the net pension liability (asset) | % | 0.007672% | 0.007308% | 0.007228% | 0.007411% | 0.007795% | 0.008071% | 0.007685% | | |
| Employer's proportionate share of the net pension liability | \$ | (764,255) | 93,465 | 70,208 | 126,536 | 270,839 | 406,368 | 274,589 | | |
| TOTAL | \$ | (764,255) | 93,465 | 70,208 | 126,536 | 270,839 | 406,368 | 274,589 | | |
| Covered payroll | \$ | 917,596 | 850,054 | 785,516 | 792,025 | 767,341 | 748,270 | 681,838 | | |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | % | -83.29% | 11.00% | 8.94% | 15.98% | 35.30% | 54.31% | 40.27% | | |
| Plan fiduciary net position as a percentage of the total pension liability | % | 120.29% | 97.22% | 97.77% | 95.77% | 90.97% | 85.82% | 89.20% | | |

See accompanying notes

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE VII

Skyway Water and Sewer District
Schedule of Employer Contributions
Year Ended December 31, 2021
Last 10 Fiscal Years*

| | | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 20XX | 20XX | 20XX |
|--|----|----------|----------|----------|----------|----------|----------|----------|------|------|------|
| PERS 1 | | | | | | | | | | | |
| Statutorily or contractually required contributions | \$ | 39,705 | 43,488 | 39,373 | 40,098 | 37,543 | 34,653 | 32,534 | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ | (39,705) | (43,488) | (39,373) | (40,098) | (37,543) | (34,653) | (32,534) | | | |
| Contribution deficiency (excess) | \$ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Covered payroll | \$ | 926,769 | 906,509 | 796,526 | 792,025 | 767,341 | 726,747 | 740,312 | | | |
| Contributions as a percentage of covered payroll | % | 4.28% | 4.80% | 4.94% | 5.06% | 4.89% | 4.77% | 4.39% | | | |
| | | | | | | | | | | | |
| PERS 2/3 | | | | | | | | | | | |
| Statutorily or contractually required contributions | \$ | 66,100 | 71,796 | 61,508 | 59,401 | 52,363 | 45,259 | 41,791 | | | |
| Contributions in relation to the statutorily or contractually required contributions | \$ | (66,100) | (71,796) | (61,508) | (59,401) | (52,363) | (45,259) | (41,791) | | | |
| Contribution deficiency (excess) | \$ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Covered payroll | \$ | 926,769 | 906,509 | 796,526 | 792,025 | 767,341 | 726,747 | 740,312 | | | |
| Contributions as a percentage of covered payroll | % | 7.13% | 7.92% | 7.72% | 7.50% | 6.82% | 6.23% | 5.65% | | | |

Notes to Supplementary Schedules VI and VII

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2: Changes of Benefit Terms

There were no changes of benefit terms for the pension plans.

Note 3: Changes of Assumptions

Refer to Notes to Financial Statements, Note 7, Actuarial Assumptions.

See accompanying notes.

**Skyway Water and Sewer District
Schedule of Changes in Total OPEB Liability and Related Ratios
Public Employees' Benefit Board (PEBB) Health Insurance Plan
Year Ended June 30, 2021
Last 10 Fiscal Years***

Notes to Supplementary Schedule VIII

These schedules will be built prospectively until they contain 10 years of data.

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

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ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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