



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Beacon Hill Water and Sewer District

For the period January 1, 2021 through December 31, 2022

Published October 19, 2023

Report No. 1033467



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

October 19, 2023

Board of Commissioners
Beacon Hill Water and Sewer District
Kelso, Washington

Report on Financial Statements

Please find attached our report on the Beacon Hill 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*

Beacon Hill Water and Sewer District January 1, 2021 through December 31, 2022

Board of Commissioners
Beacon Hill Water and Sewer District
Kelso, 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 Beacon Hill Water and Sewer District, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 11, 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.

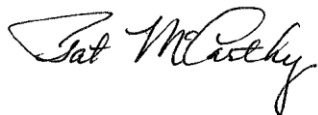
REPORT ON COMPLIANCE AND OTHER MATTERS

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.

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Pat McCarthy, State Auditor

Olympia, WA

October 11, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Beacon Hill Water and Sewer District January 1, 2021 through December 31, 2022

Board of Commissioners
Beacon Hill Water and Sewer District
Kelso, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the Beacon Hill Water and Sewer District, as of and for the years ended December 31, 2022 and 2021, 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 Beacon Hill Water and Sewer District, as of December 31, 2022 and 2021, 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 October 11, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

October 11, 2023

FINANCIAL SECTION

Beacon Hill Water and Sewer District January 1, 2021 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022 and 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022 and 2021

Statement of Revenues, Expenses and Changes in Fund Net Position – 2022 and 2021

Statement of Cash Flows – 2022 and 2021

Notes to the Financial Statements – 2022 and 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability (Asset) – PERS 1 and PERS 2/3
– 2022 and 2021

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2022 and 2021

Notes to Required Supplemental Information – Pension – 2022 and 2021

BEACON HILL WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ending December 31, 2022, and 2021

INTRODUCTION

Beacon Hill Water and Sewer District (District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal years ended December 31, 2022, and December 31, 2021. The following Management's Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, the notes to the financial statements and, if applicable, any other supplementary information required as part of the basic financial statements. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

BACKGROUND

Beacon Hill Water and Sewer District is a public entity established in 1959 to provide wastewater collection and transportation for the Beacon Hill and Columbia Heights areas located just north of the city limits of Longview and Kelso. The Lexington area customers were added to the system in the early 1970's. The Cowlitz PUD's water systems were managed by the District starting in 2007 and fully transferred to the District in 2010. The District's total service area is approximately bordered by Ostrander Road to the east, the Longview City limits to the south, Lone Oak Road to the west and King Road to the north. The District Office is located on SR-411 at 1121 West Side Highway, Kelso, WA 98626.

A three-person Board of Commissioners is elected by a vote of the customers to serve six-year terms to govern the District. The Board is the District's policy making and decision-making body. State regulatory oversight of the wastewater collection system is by the Washington State Department of Ecology. Regulatory oversight of the drinking water system is by the Washington State Department of Health.

The District is not legally required to adopt an annual budget; however, the District does adopt a similar management tool as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts the biannual maintenance and operation management tool to use as a financial plan for the District. The District has not reported budgetary comparison schedules herein as required supplementary information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements present a special purpose District organized under the laws of the State of Washington, Revised Code of Washington (RCW), Title 57, to provide domestic water and sanitary sewer service to specific areas in Cowlitz County, Washington. The District is not a segment of any other local government, nor is it a component thereof.

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

The ***Statement of Net Position*** provides a record, or snapshot, of the assets, deferred outflows, liabilities, and deferred inflows at the close of the year. It presents the financial position of the District on a full accrual historical cost basis. The net difference between the District's assets and liabilities is shown as the District's net position. Net position is further broken down into separate categories to show the net position is invested in net capital assets, restricted net position, if applicable and unrestricted net position of the District.

The ***Statement of Revenues, Expenses, and Changes in Fund Net Position*** present the results of the business activities over the course of the fiscal year and the resulting change in net position of the District.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future years. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate profitability and credit worthiness.

The **Statement of Cash Flows** is the third basic financial statement and is related to the other financial statements by the way it links changes in assets, deferred outflows, liabilities, and deferred inflows to the effect on cash equivalents over the course of the fiscal year. The statement reports cash receipts, cash payments and net changes resulting from operating, financing, and investing activities. It presents information regarding where cash came from and for what it was used.

The **Notes to Financial Statements** provide useful information regarding the District's significant accounting policies; it explains significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

FINANCIAL POSITION

The District's overall financial position continues to be strong with enough liquidity and debt capacity to finance future capital improvements.

Total net position for the District totaled \$23,191,584 at December 31, 2022, which represents a \$1,408,814 increase over the December 31, 2021 balance of \$21,782,770.

December 31, 2021, balance of \$21,782,770 increased \$1,590,541 over the December 31, 2020, balance of \$20,192,229.

STATEMENT OF NET POSITION			
	2022	2021	2020
Assets:			
Current and Other Assets	\$ 13,710,085	\$ 13,082,182	\$ 12,366,348
Capital Assets, Net of Depreciation & Amortization	16,194,085	16,077,369	13,662,931
Total Assets	29,904,170	29,159,551	26,029,279
Deferred Outflows of Resources	299,450	121,518	97,972
Liabilities:			
Current and Other Liabilities	556,178	982,927	594,561
Noncurrent Liabilities	6,204,339	5,773,410	5,255,816
Total Liabilities	6,760,517	6,756,337	5,850,377
Deferred Inflows of Resources	251,519	741,962	84,645
Net Position:			
Net Investment in Capital Assets	11,916,557	12,230,595	10,369,039
Restricted for Debt, Capital, and Net Pension Asset	602,867	1,040,903	326,372
Unrestricted	10,672,160	8,511,272	9,496,818
Total Net Position	\$ 23,191,584	\$ 21,782,770	\$ 20,192,229

Analysis of changes in Total Net Position from 2021 to 2022:

For the twelve months ending December 31, 2022, the total net position of the District increased by \$1,408,814 or 6.47% (\$21,782,770 to \$23,191,584).

The largest portion of the current and other assets is made-up of Cash and Cash Equivalents (\$12,102,768 or 93.8%). The increase of 8.62% or \$960,851 over the prior year balance of \$11,141,917 is the result of normal operations and loan proceeds.

The Investment in Associated Organization represents 3.40% or \$568,943 of noncurrent assets. This is the Mint Farm Regional Water Treatment Plant of which the District had 15.19% ownership. In 2022 the District increased its capital participation in this asset, resulting in an increase of 53.97% or \$199,425.

Capital Assets increased 0.73% or \$116,715 in 2022 over the prior year balance of \$16,077,369. The increase resulted from asset additions exceeding disposals and depreciation. Most of the additions were pumping, transportation and office equipment, and sewer line replacements.

The restricted net position of the District which consists of capital assets and debt service, and net pension asset decreased 42.08% or \$438,036 (\$1,040,903 to \$602,867). The decrease in restricted net position is due to the decrease in the net pension asset.

The unrestricted net position of District increased 25.39% or \$2,160,888 mainly due to an increase in cash and cash equivalents, The District continues to keep expenditures lower than operating revenues.

Analysis of changes in Total Net Position from 2020 to 2021:

For the twelve months ending December 31, 2021, the total net position of the District increased by \$1,590,541 or 7.88% (\$20,192,229 to \$21,782,770).

The largest portion of the current and other assets is made-up of Cash and Cash Equivalents (\$11,141,917 or 92.87%). The decrease of 2.86% or \$328,582 over the prior year balance of \$11,470,499 is the result of normal operations.

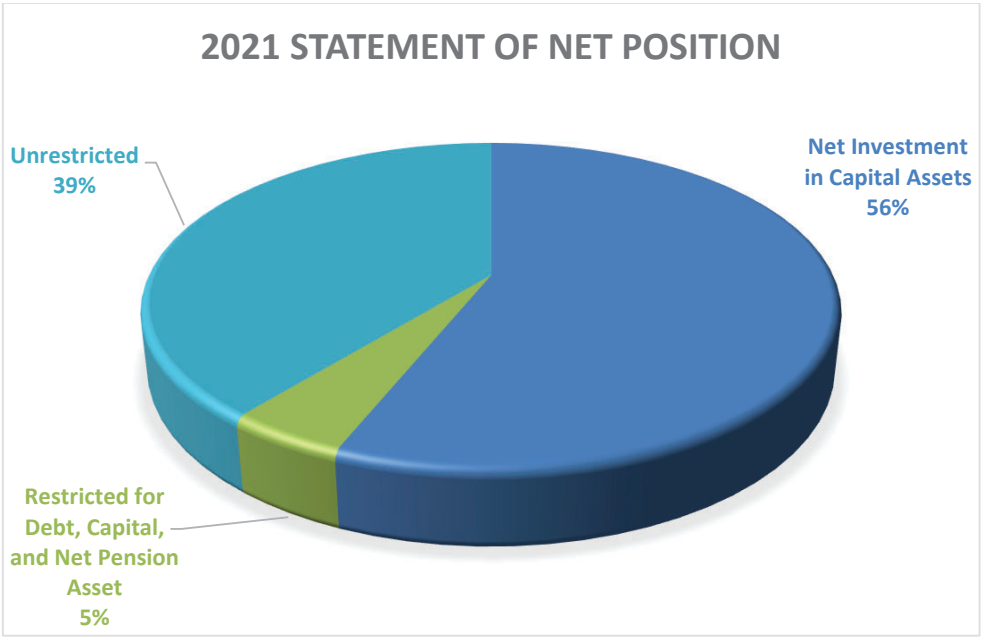
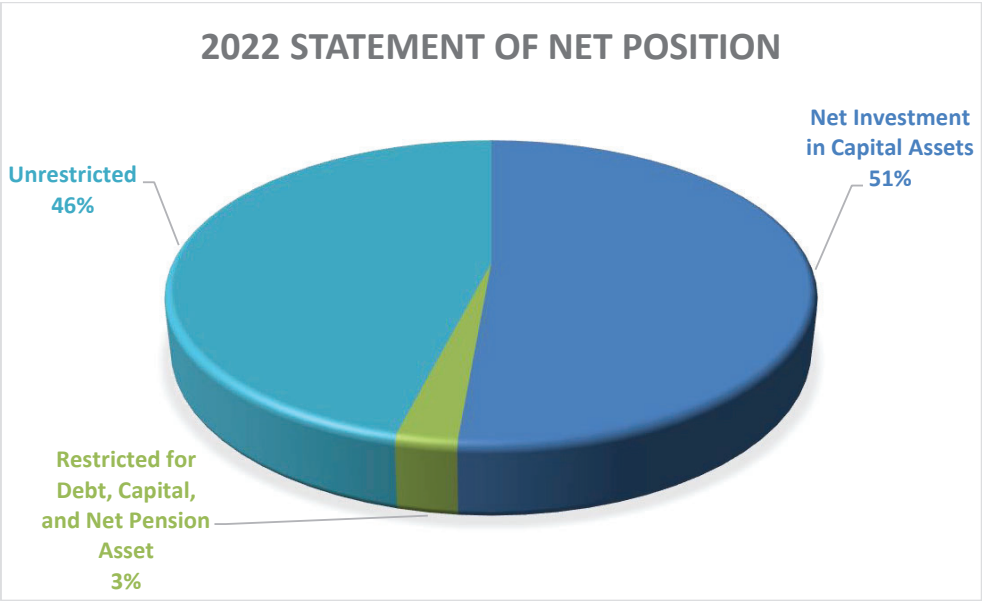
Investment in Associated Organization represents 2.15% or \$369,518 of noncurrent assets. This is the Mint Farm Regional Water Treatment Plant of which the District had 15.08% ownership. In 2021 the District increased its capital participation in this asset, resulting in an increase of 257.74% or \$266,225.

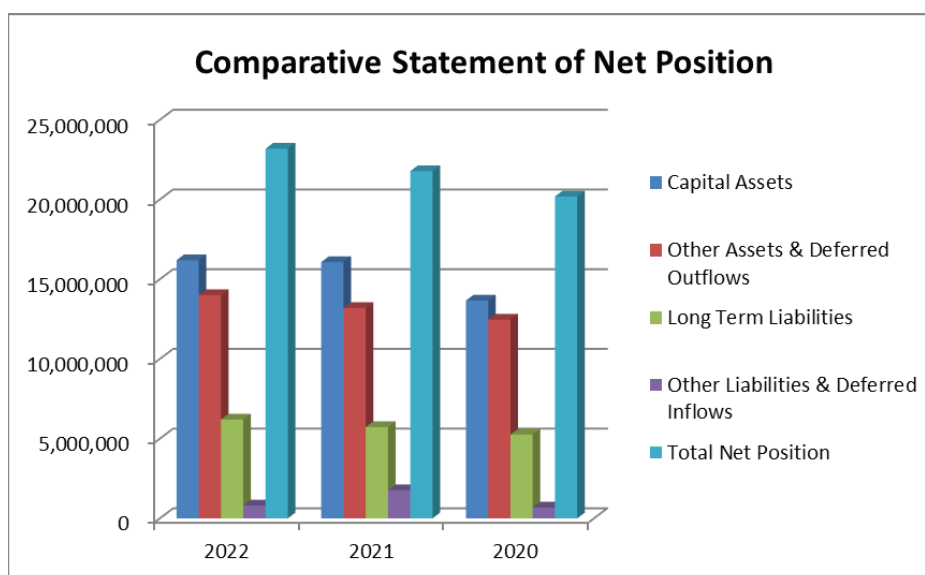
Capital Assets increased 17.67% or \$2,414,438 in 2021 over the prior year balance of \$13,662,931. The increase resulted from asset additions exceeding disposals and depreciation. The additions were from easements, facility improvements, sewer line replacements, and replacement of utility and accounting software.

The restricted net position of the District consists of debt service on the revenue bonds in the amount of \$324,564, which decreased \$1,808 or .55% (\$326,372 to \$324,564). The decrease was due to a drop in the debt reserve account. Additionally, there is a component of restricted net position that is restricted for the amount of the net pension asset. This is a result of the State of Washington Actuary valuation that PERS 2/3 is now fully funded.

The unrestricted net position of District decreased 10.38% or \$985,546 mainly due to a decrease in cash and cash equivalents resulting from decreased earning rates on investments and capital spending. The District continues to keep expenditures lower than operating revenues.

The following charts indicate the components of the District’s financial position:





RESULTS OF OPERATIONS

Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position as of December 31:

	2022	2021	2020
Revenues			
Operating Revenues	\$ 4,836,879	\$ 4,769,480	\$ 4,662,676
Nonoperating Revenues	121,617	22,230	84,404
Total Revenues	4,958,496	4,791,710	4,747,080
Expenses			
Operating Expenses	3,391,549	3,518,941	3,703,873
Nonoperating Expenses	279,010	204,197	260,625
Total Expenses	3,670,559	3,723,138	3,964,498
Excess before Contributions	1,287,937	1,068,572	782,582
Capital Contributions	120,877	579,612	115,646
Change in Net Position	1,408,814	1,648,184	898,228
Net Position - Beginning	21,782,770	20,192,229	19,294,001
Prior Period Adjustment	-	(57,643)	-
Net Position - Ending	23,191,584	21,782,770	20,192,229

Analysis of changes in Revenues, Expenses and Changes in Net Position from 2021 to 2022:

- Excess before capital contributions increased by \$219,365 (\$1,068,572) to \$1,287,937).
- Operating revenues increased by \$67,399, made up primarily by an increase in service fees due to a rate increase.
- Other non-operating revenues increased by \$99,387 due to an increase in investment revenue.

- Operating expenses have remained stable year after year.
- Non-operating expenses increased by \$74,813 overall due to interest paid on debt obligation and change in Associated Organization.
- Capital contributions decreased by \$458,735 from 2021 to 2022 (\$579,612 to \$120,877) and were made up entirely of connection fees.

Analysis of changes in Revenues, Expenses and Changes in Net Position from 2020 to 2021:

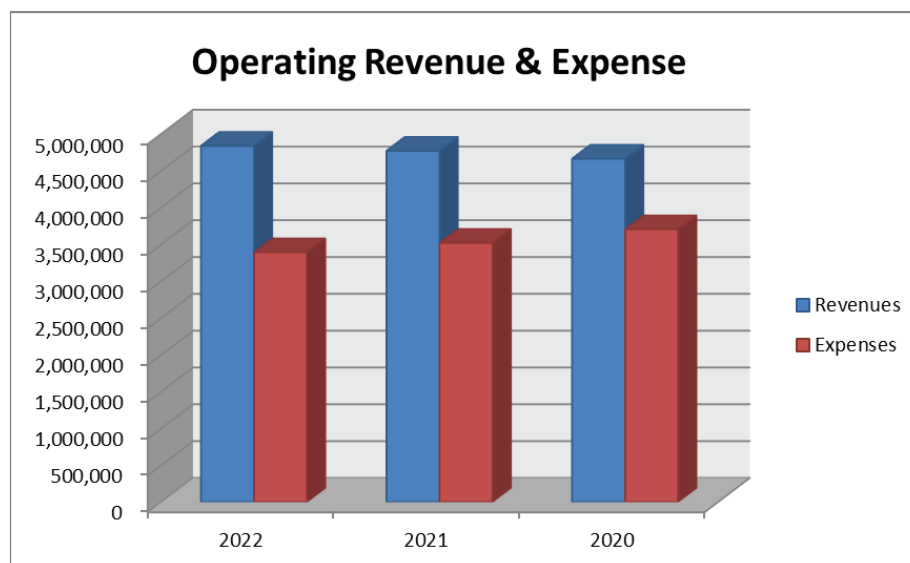
- Excess before capital contributions increased by \$285,990 (\$782,582 to \$1,068,572).
- Operating revenues increased by \$106,804, remade up primarily by an increase in service fees due to a rate increase.
- Other non-operating revenues decreased by \$62,174 due to a decrease in investment revenue.
- Operating expenses decreased by \$184,932 due to changes in labor, benefits, repair, and maintenance expenses.
- Non-operating expenses decreased by \$56,428 overall due to changes in Associated Organization.
- Capital contributions increased by \$463,966 from 2020 to 2021 (\$115,646 to \$579,612) and were made up entirely of connection fees.

District water and sewer operations are funded from customer revenues. The District's year-end customer base for the years 2022, 2021, and 2020 were as follows:

Year	Residential Units	Commercial Units (residential equivalents)	Metered Accounts (residential equivalent)	Total	Increase/ (Decrease)
2022	3627	381	3	4011	-13.3%
2021	3941	679	4	4624	0.2%
2020	3933	678	4	4615	0.3%

The District reevaluated ERU's based on maximum potential use, which caused the overall decrease in units in 2022.

The following chart indicates operating revenues and expenses:



The Districts revenues are categorized in three groups: water service, wastewater service and ancillary charges. Ancillary charges include meter installations, inspection permit fees, account set up and penalty fees, and other charges for miscellaneous billed services.

The District also collects water and sewer connection charges and receives additions to its collections and distribution systems from developers. These facilities typically consist of the pipes and structures needed to serve residential communities and are recorded as capital assets and non-cash capacity revenue. These fees are classified as non-operating revenues. While not formally restricted, the District typically uses connection charges for capital investment and debt service. Development slowed down in 2022 with capital contribution revenue from connection fees of \$120,877 in 2022, \$579,612 in 2021 and \$115,646 in 2020.

Non-operating expenses exceeded non-operating revenues by \$157,393 in 2022, \$181,967 in 2021 and \$176,221 in 2020. The increase in non-operating revenues of \$99,387 in 2022 is due to an increase in interest and investment revenue and the decrease of \$62,174 in 2021 and \$131,394 in 2020 is due to a decrease in interest and investment revenue. Interest and other debt service expenses were \$143,329 in 2022, \$145,036 in 2021 and \$138,953 in 2020. The decreases are due to accelerated principal payments on a portion of the District's debt and the increase due to the District's increased debt.

Operating expenses decreased from \$3,703,873 in 2020 to 3,518,941 in 2021 and then decreased to \$3,391,549 in 2022. One component of operating expenses includes sewer treatment costs. As the flow of treatment members changes each year, the District's percentage of the shared operating expense will likewise adjust. Treatment costs were \$618,070 in 2020 and decreased by \$18,082 to \$599,988 in 2021 and had a further decrease of \$6,332 to \$593,656 in 2022 as noted, due to the change in the District's share of the costs decreasing over these periods.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets: The District's capital assets for system improvements (net accumulated depreciation and amortization) as of December 31, 2022, totaled \$16,194,084, December 31, 2021, totaled \$16,077,369 and December 31, 2020, totaled \$13,662,931. Overall capital assets changes are due to increases and decreases in capital improvement projects in progress.

Capital asset additions totaled \$104,910 in 2022, which comprised of the following:

Collection Sewer-Force \$44,581, Pumping Equipment \$32,118, Transportation & Power Operated Equipment \$16,118, Office Furniture & Equipment \$8,093, and Land & Land Rights \$4,000.

Capital asset additions totaled \$3,319,671 in 2021, which comprised of the following:

Land and Land Rights \$46,958, Plant assets of \$3,174,740 which is comprised of Pumping Equipment \$10,459, Collection Sewer-Force \$2,843,000, Transmission and Distribution Mains \$321,281, and Intangible assets increased by \$97,973 for the Utility and Financial Software.

Capital asset additions totaled \$274,936 in 2020, which comprised of the following:

Collection Sewer-Force \$163,845, Structures and Improvements \$34,205 and Power Operated Equipment \$76,886.

Debt acquired in 2022, 2021 and 2020 consists of:

- 24-year Drinking Water State Revolving Fund Loan for \$2,060,400, authorized in 2020 with \$760,856 drawn in 2022, for a reservoir replacement.

Direct Borrowing Loans and Bond Obligations:

Type of Debt	Debt Outstanding 12/31/2022	Debt Outstanding 12/31/2021	Debt Outstanding 12/31/2020
Direct Borrowing Loans Payable			
PWTF Loans	\$ 1,135,639	\$ 1,249,970	\$ 481,317
DWSRF Loans	1,913,831	1,226,988	1,301,000
Total Direct Borrowing Loans Payable	3,049,470	2,476,958	1,782,317
Bonds Payable			
Revenue Bonds	2,970,000	3,100,000	3,230,000
Unamortized Revenue Bond Premium	187,162	198,921	210,680
Total Bonds Payable	3,157,162	3,298,921	3,440,680
Total Direct Borrowing Loans and Bonds Payable	<u>\$ 6,206,632</u>	<u>\$ 5,775,879</u>	<u>\$ 5,222,997</u>

Additional information on the District's Capital Assets and Long-term Debt can be found in the Notes to the Financial Statements, Notes 4 and 7, respectively.

ADDITIONAL COMMENTS

The District is dependent on the Three Rivers Regional Wastewater Authority (TRRWA) for the treatment of sewage collected. On July 1, 2016, TRRWA adopted a new formation agreement as a Joint Municipal Utility Services Authority (JMUSA). It continues to be governed by a board consisting of the following member entities: Beacon Hill Water and Sewer District, City of Longview, City of Kelso, and Cowlitz County. The District's treatment costs are directly related to the treatment plant's budget divided by a percentage of total flow established by entity usage.

Requests for Information

This financial report is designed and intended to provide a general overview of the District's financial position. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Beacon Hill Water and Sewer District at 1121 West Side Highway, Kelso, WA 98626 or via our website at bhwsd.org.

BEACON HILL WATER AND SEWER DISTRICT

Statement of Net Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$9,815,538	\$8,888,248
Restricted Cash and Cash Equivalents	2,287,230	2,253,669
Accounts Receivable	627,636	692,318
Inventory	67,084	48,954
Prepayments	98,913	113,136
Total Current Assets	12,896,401	11,996,325
Noncurrent Assets		
Investment in Associated Organization	568,943	369,518
Net Pension Asset	244,742	716,339
Capital Assets Not Being Depreciated	1,534,474	777,590
Capital Asset Being Depreciated	14,659,610	15,299,779
Total Noncurrent Assets	17,007,769	17,163,226
TOTAL ASSETS	29,904,170	29,159,551
DEFERRED OUTFLOWS of RESOURCES		
Amount Related to Pension	256,083	82,369
Amount Related to Asset Retirement Obligations	43,367	39,149
TOTAL DEFERRED OUTFLOW OF RESOURCES	299,450	121,518
LIABILITIES		
Current Liabilities		
Accounts Payable	97,620	500,314
Accrued Payroll Liabilities	59,891	32,986
Employee Compensated Absences	71,344	110,227
Interest Payable	19,250	6,750
Prepaid Lease Revenue	2,430	2,547
Bonds and Loans Payable	305,643	330,103
Total Current Liabilities	556,178	982,927
Noncurrent Liabilities		
Bonds and Loans Payable	5,900,989	5,445,776
Employee Compensated Absences	58,372	161,008
Asset Retirement Obligations	104,145	98,249
Pension Obligations	140,833	68,377
Total Noncurrent Liabilities	6,204,339	5,773,410
TOTAL LIABILITIES	6,760,517	6,756,337
DEFERRED INFLOWS OF RESOURCES		
Amount Related to Pension	251,519	741,962
Total Deferred Inflows of Resources	251,519	741,962
NET POSITION		
Net Investment in Capital Assets	11,916,557	12,230,595
Restricted for Capital Assets and Debt Service	358,125	324,564
Restricted for Net Pension Asset	244,742	716,339
Unrestricted	10,672,160	8,511,272
TOTAL NET POSITION	23,191,584	21,782,770

BEACON HILL WATER AND SEWER DISTRICT
Statement of Revenues , Expenses and Changes in Fund Net Position
For the year ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Charge for Services	\$ 4,789,447	\$ 4,752,719
Miscellaneous	47,432	16,761
Total Operating Revenues	4,836,879	4,769,480
OPERATING EXPENSES		
Treatment Expenses	593,656	599,988
Operations	1,564,950	1,740,292
Repairs and Maintenance	211,946	150,133
Insurance	84,396	77,171
Taxes	195,919	189,620
Depreciation	740,682	761,737
Total Operating Expenses	3,391,549	3,518,941
OPERATING INCOME (LOSS)	1,445,330	1,250,539
NONOPERATING REVENUES (EXPENSES)		
Interest and Investment Revenue	117,808	9,086
Lease Revenue	3,809	3,695
Gain/(Loss) on Sale of Capital Assets	-	(15,516)
Interest Expense	(143,329)	(145,036)
Miscellaneous Non-Operating	(6,749)	9,449
Change in Associated Organization	(128,932)	(43,645)
Total Nonoperation Revenues (Expenses)	(157,393)	(181,967)
Income (Loss) Before Contributions	1,287,937	1,068,572
Capital Contributions - Connection Fees	120,877	579,612
Change in Net Position	1,408,814	1,648,184
Total Net Position, January 1	21,782,770	20,192,229
Prior Period Adjustments	-	(57,643)
Total Net Position, December 31	\$ 23,191,584	\$ 21,782,770

The notes to the Financial Statements are an integral part of this statement.

BEACON HILL WATER AND SEWER DISTRICT
Statement of Cash Flows
December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 4,901,444	\$ 4,717,468
Payments for Goods & Services	(1,859,215)	(1,540,327)
Payments for Personnel	(1,201,479)	(1,256,279)
Other Receipts	(2,939)	13,144
Net Cash Provided (Used) by Operating Activities	<u>1,837,811</u>	<u>1,934,006</u>
CASH FLOWS FROM CAPITAL AND REALATED FINANCING ACTIVITIES		
Receipt of Capital Contributions	120,877	579,612
Purchase of Capital Assets	(1,087,213)	(2,944,645)
Proceeds from Capital Related Debt	760,856	901,811
Proceeds on Sale of Capital Assets	-	5,149
Payments on Debt	(318,344)	(337,170)
Interest Payments on Debt	(142,588)	(166,559)
Net Cash Provided (Used) from Capital and Related Financing Activities	<u>(666,412)</u>	<u>(1,961,802)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Investment in Associated Organization	(328,354)	(309,870)
Receipt of Interest	117,806	9,084
Net Cash Provided (Used) by Investing Activities	<u>(210,548)</u>	<u>(300,786)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	960,851	(328,582)
Cash and Cash Equivalents - January 1	11,141,917	11,470,499
Cash and Cash Equivalents - December 31	<u>\$ 12,102,768</u>	<u>\$ 11,141,917</u>
Reconciliation to Net Position:		
Cash and Cash Equivalents	\$ 9,815,538	\$ 8,888,248
Restricted Cash and Cash Equivalents	2,287,230	2,253,669
Total Cash and Cash Equivalents	<u>\$ 12,102,768</u>	<u>\$ 11,141,917</u>
(USED) BY OPERATING ACTIVITIES		
Net Operating Income (Loss)	\$ 1,445,330	\$ 1,250,539
PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation and Amortization	740,682	761,737
Decrease (Increase) in Receivables	64,682	(52,177)
Increase (Decrease) in Accounts Payable	(172,878)	151,255
Increase (Decrease) in Customer Deposits	(117)	165
Decrease (Increase) in Prepaid Items and Inventory	(3,908)	(9,675)
Increase (Decrease) in Other Payables	(114,614)	62,689
Increase (Decrease) in Pension Activity	(120,104)	(243,671)
Other Payments	(1,262)	13,144
Total Adjustments	<u>392,481</u>	<u>683,467</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,837,811</u>	<u>\$ 1,934,006</u>
Noncash Transactions		
Increase (Decrease) in Investment in Related Organization	147,707	66,995
Capital Assets Financed Through Accounts Payable	8,267	252,195
Gain (Loss) on Disposition of Capital Assets	-	10,367

BEACON HILL WATER AND SEWER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Beacon Hill Water and Sewer District (District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant:

a. Reporting Entity

Beacon Hill Water and Sewer District is a municipal corporation governed by an elected three (3)-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Beacon Hill Water and Sewer 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 used the *Uniform System of Accounts for Class A Water Utilities and Class A 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.

The district distinguishes between operating revenues and expenses from non-operating ones. 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 service provided by the water and sewer systems. The district also recognizes as operating revenue the portion of the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the district considers all liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash Equivalents include currency on hand, Washington State Public Deposit Protection Commission (PDPC) member bank deposits and investments in the Washington State Local Government Investment Pool (LGIP).

d. Utility Plant and Depreciation (See Note 4)

e. Restricted Assets

In accordance with the bond resolutions from the 2018 Revenue Bonds, separate restricted funds were established, which holds the following:

	<u>2022</u>	<u>2021</u>
Unspent Bond Proceeds	\$1,929,105	\$1,929,105
Interest earned unspent bond proceeds	104,612	71,051
Annual Bond Debt Service	<u>253,513</u>	<u>253,513</u>
Total Restricted Funds	\$2,287,230	\$2,253,669

f. Receivables

Customer accounts receivable consist of amounts owed for goods and services. Delinquent customer receivables are secured by liens against the serviced property per state law; therefore, there are no accounts “written off” as uncollectable. The district’s policy is to issue a letter of intent, with 60-calendar days to respond, to foreclose on utility charges and lien balances that exceed five years or \$4,000 for a single-family residence or commercial property, whichever comes first.

g. Inventories

Inventories are valued at cost, which approximates the market value, using average cost. Inventories were valued at \$67,084 as of December 31, 2022, and \$48,954 as of December 31, 2021.

h. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and recorded as prepaid items in the financial statements. As of December 31, 2022, the District reports \$98,913 in prepayments and as of December 31, 2021, \$113,136.

i. Investments (See Note 2)

j. Compensated Absences

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

Vacation is earned in amounts varying from twelve (12) days after the first year to twenty-two (22) days after 18 years of service. Vacation may accrue to a total of thirty (30) days. Sick leave is granted at the rate of one working day per month and may accrue to one hundred fifty (150) working days. An employee separated from employment due to retirement or termination short of retirement age (except for due cause) shall be compensated one hundred (100) percent of his/her sick leave up to a maximum of ninety days, provided the employee has completed ten (10) years of service.

k. 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 only.

l. Asset Retirement Obligations

The asset retirement obligations (ARO) is the liability associated with the retirement of District owned capital assets that have a substantial cost to the District. The obligation will be paid from operating income; no assets have been set aside to fund this obligation. See Note 9 for more information. The District also presents a deferred outflow of resources related to this ARO.

m. Use of Estimate

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and cash equivalents

The district's cash and cash equivalents are cash on hand, certificates of deposit, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

As of December 31, 2022, and December 31, 2021, the District cash, cash equivalents, and investments as reported on the Statement of Net Position are as follows:

	2022	2021
Unrestricted		
Cash on Hand	\$4,429,534	\$4,411,589
State Treasurer's Investment Pool	5,386,004	4,476,659
Subtotal Unrestricted	9,815,538	8,888,248
Restricted		
Cash on Hand	253,512	253,512
State Treasurer's Investment Pool	2,033,718	2,000,157
Subtotal Restricted	2,287,230	2,253,669
Total Cash and Investments	\$12,102,768	\$11,141,917

The district as of December 31, 2022, had investments of \$7,419,722 and as of December 31, 2021, \$6,476,816 in the Washington State Local Government Investment Pool, which is classified as cash equivalents. Additional cash & cash equivalents consist of \$4,683,046 and \$4,665,101 as of December 31, 2022, and December 31, 2021, held in interest bearing bank accounts, petty cash, and cash change drawers.

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The district has an adopted policy that addresses deposit custodial risk; however, the district's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the district's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Investments

In October 2010, Resolution No. 421 adopted a finance policy, which directs the setting of rates, use of debt and investment of funds in preparation for assuming those duties from Cowlitz County. In 2011, the district became its own treasurer, thus governing its own cash and investments.

Statutes authorize the district to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, county investment pool and the state treasurer's investment pool. The district is also authorized to enter reverse repurchase agreements but did not participate in these investments during 2022 and 2021.

The district is currently invested in the Washington State Local Government Investment Pool (LGIP), which is reported at amortized cost. Otherwise, investments for the district are reported at fair value.

The LGIP operates in accordance with appropriate state laws and regulations. The LGIP transacts with its participants at a stable net asset value per share and meets the portfolio maturity, quality, diversification, liquidity, and shadow pricing requirements that allows it to report at amortized cost. Further, The LGIP is classified as an unrated 2a-7 investment pool per the Securities and Exchange Commission

The weighted average maturities of the LGIP are less than three (3) months with cash available to the district on demand. The on-demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk. Cash investments are not subject to interest rate risk or any market value reporting requirements. All LGIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third-party custody provider in the name of the LGIP. The LGIP is audited by the Washington State Auditor's Office and regulated by Washington RCWs and the LGIP Advisory Committee.

Investments Measured at Amortized Cost

The district had investments at amortized cost in the State Investment Pool as of December 31, 2022, in the amount of \$7,419,722 and \$6,476,816 as of December 31, 2021.

The State Pool has elected to measure these investments at amortized cost. The only restriction on withdrawals from the State Investment Pool is when a deposit is received by ACH. In this case, a five-day waiting period exists.

Total cash and investments are stated at \$12,102,768 as of December 31, 2022, and \$11,141,917 as of December 31, 2021. There is additional cash held in District accounts due to "float" of outstanding checks, which have not cleared the bank as of December 31, 2022, and December 31, 2021. Cash and investments held by the district per the bank account, including the un-cleared checks as of December 31, 2022, total \$12,116,260 and as of December 31, 2021, total \$11,158,290.

NOTE 3 – ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Receivables as of December 31, 2022, and December 31, 2021, for the district are as follows:

Payables as of December 31, 2022, and December 31, 2021, for the district are as follows:

	12/31/2022	12/31/2021
Trades Receivable		
Billed	\$ 464,070	\$ 457,815
Unbilled	168,804	228,272
Liens	(8,185)	4,437
Interest	2,947	1,794
Net Receivables	<u>\$ 627,636</u>	<u>\$ 692,318</u>

	12/31/2022	12/31/2021
Trades Payable	\$ 89,353	\$ 239,852
Retainage	8,267	260,462
Wages	59,891	32,986
Interest	19,250	6,750
Net Payables	<u>\$ 176,761</u>	<u>\$ 540,050</u>

NOTE 4 – UTILITY PLANT AND DEPRECIATION (CAPITAL ASSETS)

Capital assets are defined by the district as assets with an initial individual cost of \$5,000 or more and an estimated useful life more than 1 year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated historical cost. Donations by developers and customers are recorded at acquisition value.

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

Capital assets are depreciated using the straight-line method. Estimated useful lives are as follows:

Class	Years
Computers & Software	3 – 20
Collection Sewers-Force	10 – 75
Distribution Reservoirs & Standpipes	10 – 50
Hydrants	40
Meters	20 – 40
Equipment	5 – 40
Structures & Improvements	5 – 50
Services	40
Transmission & Distribution Mains	10 – 40
Wells & Springs	20 – 75

Utility plant activities for the year ended December 31, 2022, were as follows:

	1/1/2022	Increase	Decrease	12/31/2022
Utility Plant not being depreciated:				
Land	\$ 463,644	\$ 4,000	\$ -	\$ 467,644
Construction in Progress	313,946	866,469	(113,585)	1,066,830
Total utility plant not being depreciated	777,590	870,469	(113,585)	1,534,474
Utility plant being depreciated:				
Plant	29,081,595	76,698	-	29,158,293
Equipment	875,908	24,210	-	900,118
Intangible Assets	232,731	-	-	232,731
Total utility plant being depreciated	30,190,234	100,908	-	30,291,142
Less accumulated depreciation:				
Plant	14,112,571	673,938	-	14,786,509
Equipment	664,072	46,405	-	710,477
Intangible Assets	113,812	20,734	-	134,546
Total accumulated depreciation	14,890,455	741,077	-	15,631,532
Total utility plant being depreciated, net	15,299,779	(640,169)	-	14,659,610
TOTAL UTILITY PLANT, NET	\$ 16,077,369	\$ 230,300	\$ (113,585)	\$ 16,194,084

Utility plant activities for the year ended December 31, 2021, were as follows:

	1/1/2021	Increase	Decrease	12/31/2021
Utility Plant not being depreciated:				
Land	\$ 416,686	\$ 46,958	\$ -	\$ 463,644
Construction in Progress	436,777	3,139,423	(3,262,254)	313,946
Total utility plant not being depreciated	853,463	3,186,381	(3,262,254)	777,590
Utility plant being depreciated:				
Plant	26,113,082	3,174,740	(206,227)	29,081,595
Equipment	999,396	-	(123,488)	875,908
Intangible Assets	134,758	97,973	-	232,731
Total utility plant being depreciated	27,247,236	3,272,713	(329,715)	30,190,234
Less accumulated depreciation:				
Plant	13,639,850	673,798	(201,077)	14,112,571
Equipment	701,341	70,704	(107,973)	664,072
Intangible Assets	96,577	17,235	-	113,812
Total accumulated depreciation	14,437,768	761,737	(309,050)	14,890,455
Total utility plant being depreciated, net	12,809,468	2,510,976	(20,665)	15,299,779
TOTAL UTILITY PLANT, NET	\$ 13,662,931	\$ 5,697,357	\$ (3,282,919)	\$ 16,077,369

NOTE 5 – CONSTRUCTION COMMITMENTS

Construction in progress represents activities to date on projects whose authorizations, committed and future funding is as follows:

	12/31/2022	12/31/2021
Authorizations	\$ 5,506,200	\$ 3,208,300
Committed	\$ 4,459,444	\$ 3,083,166
Future Financing of Committed	None	None

NOTE 6 – OTHER PROPERTY AND INVESTMENTS

a. Regional Water Treatment Plant

In December 1978, Cowlitz Public Utility District No. 1 entered into an agreement with the City of Longview to construct the Regional Water Treatment Plant (RWTP). The arrangement was organized to acquire and construct a new facility to provide treated water to the residents of the Ownership of the RWTP is based on total historical usage from the plant. In December 2010, the PUD's interest in the RWTP was transferred to Beacon Hill Water and Sewer District.

The district's ownership ratio at December 31, 2022, was 15.19% or \$568,943. This represented an increase in minority interest in 2022 of \$52,301 related to operating and maintenance and a gain of \$14,574 in capital financing participation. The district's ownership ratio on December 31, 2021, was 15.08% or \$369,518. This represented an increase of minority interest in 2021 of \$74,423 related to operating and maintenance and a gain of \$59,611 in capital financing participation.

A three-member board, comprised of two city representatives and one District representative, administers the joint operation. Water wheeling agreements are in effect between the district and the cities of Longview and Kelso providing for the delivery of water from the RWTP to the respective areas of the district's water system. The treatment plant does not have a separate legal status and is intended to be an ongoing, long-term relationship; therefore, it is not a joint venture. The RWTP is reported as a component of the City of Longview's water-sewer fund. The financial statements can be obtained through the city.

b. Three Rivers Regional Waste Water Authority

In 1996, the district entered in to an Interlocal agreement with Cowlitz County, City of Kelso, and City of Longview, to form the Three Rivers Regional Waste Water Authority (TRRWA). The TRRWA was created so that the participating entities can equitably share in the operations and improvements of the central sewage treatment facility.

On July 1, 2016, TRRWA formed a Joint Municipal Utility Service Authority (TRRWA JMUSA). This agreement was organized and created under and pursuant to the authority and provisions of RCW chapter 39.106, to provide sanitary sewer treatment and disposal services for its members and to operate, maintain and improve the Regional Assets more effectively and efficiently. As of the operation date of July 1, 2016, the TRRWA JMUSA replaced all pre-formation agreements. All existing capacity rights and financial obligations of the original members under the terms of the pre-formation agreements are transferred to each of the original members under the TRRWA JMUSA. Each member appoints a representative to serve on TRRWA JMUSA's four-member Board of Directors and a different representative to serve on the four-member Operating Board. These Boards exercise necessary powers and responsibilities to operate and maintain the Regional Assets, while ensuring representation in regional authority governance by each party.

Based on the annual budget, the Operating Board will adopt rates, charges, fees, or other payments charged to the Members for treatment of sewage, septage, external sewage sources and provisions of treatment and related services to the Members in amounts at least sufficient for TRRWA to maintain and operate the Regional Assets and pay the principal of, interest on, and coverage covenants with respect to any and all revenue Bonds that constitute a charge upon Regional Asset revenues. Each Member must make monthly payments to TRRWA for these rates, charges, fees, or other payments established by TRRWA based on each Members proportionate share of flow to the facilities as determined by TRWWA.

Capital improvements to the facility are funded by system development charges by each entity's sewer operations in proportion to each jurisdiction's respective flow to the facilities. Payments made to TRRWA by the District were \$593,656 and \$599,988 in 2022 and 2021, respectively.

This agreement may not be terminated so long as there remains any outstanding bonds payable from TRRWA rates. The Board of Directors actions require both a majority vote of the Board of Directors and approval by Directors representing Members paying more than 50% of the M&O Component, unadjusted for the prior Flow portion period, to terminate this agreement. Prior to termination, the Members must develop a plan of dissolution to wind up TRRWA's affairs. The district is a separate entity with no equity interest and not subject to any reporting requirements. On July 1, 2016, TRRWA JMUSA became its own treasurer and responsible for its reporting requirements. Complete financial statements for the TRRWA JMUSA can be obtained from the TRRWA at 467 Fibre Way, Longview, WA 98632.

NOTE 7 – LONG TERM DEBT AND LIABILITIES

a. Long-Term Debt

Direct Borrowing Loans

The State of Washington offers low-cost financing programs that allow public entities to borrow funds to finance public works projects, the Public Works Trust Fund Loans (PWTF) and Drinking Water State Revolving Fund Loans (DWSRF). These loans are payable from the revenues of the District and are unsecured. If the District is late on a scheduled payment a late charge of 1% per month/12% per annum calculated on a 360-day year will be charged by the State starting on the date the debt becomes past due and continuing until the debt is paid in full. For loans PWTF Loan PW-01-691-021 and PWTF Loan PW-03-691-008, in the event of default, the principal and interest may be declared due and become payable immediately, with any repayments not immediately made incurring late charges. The District will pay any legal fees.

The District's Direct Borrowing loans payable for these debts as of December 31, 2022, and December 31, 2021, are as follows:

Loans	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/2022 Debt Outstanding	12/31/2021 Debt Outstanding
PWTF Loan PW-03-691-008	7/1/2004	7/1/2023	0.50%	\$ 381,243	\$ 21,150	\$ 42,300
PWTF Loan PE 10-951-004	7/1/2011	7/1/2030	3.00%	350,000	-	69,551
PWTF Loan PC 12-951-086	6/1/2012	7/1/2031	0.50%	435,740	212,678	236,308
PWTF Loan PE 22-96103-001	7/21/2021	7/1/2041	0.94%	901,811	901,811	901,811
DWSRF Loan DM 13-952-162	10/1/2014	10/1/2036	1.00%	701,623	491,137	526,218
DWSRF Loan DM 16-952-035	12/1/2015	10/1/2039	1.00%	778,633	661,838	700,770
DWSRF Loan DWL24916	10/7/2020	7/1/2044	1.25%	760,856	760,856	-
Total Loans				<u>\$ 4,309,906</u>	<u>\$ 3,049,470</u>	<u>\$ 2,476,958</u>

Beacon Hill Reservoir Replacement Drinking Water State Revolving Fund Loan was authorized on October 7, 2020. The draws on this authorized loan were \$760,856 in 2022.

Fiscal Year Ending December 31, 2022, the annual requirements to amortize all loans outstanding, including interest, is as follows:

Year	Principal	Interest	Total
2023	\$ 166,257	\$ 20,644	\$ 186,901
2024	183,150	45,048	228,198
2025	183,150	42,661	225,811
2026	183,150	40,260	223,410
2027	183,151	37,845	220,996
2028-2032	892,120	152,471	1,044,591
2033-2037	762,516	90,696	853,212
2038-2042	457,933	33,920	491,853
2043	38,043	1,445	39,488
Total	\$ 3,049,470	\$ 464,990	\$ 3,514,460

Fiscal Year Ending December 31, 2021, the annual requirements to amortize all loans outstanding, including interest, is as follows:

Year	Principal	Interest	Total
2022	\$ 233,434	\$ 23,636	\$ 257,070
2023	163,884	20,220	184,104
2024	142,734	18,892	161,626
2025	142,734	17,669	160,403
2026	142,734	16,445	159,179
2027-2031	713,671	63,881	777,552
2032-2036	595,517	33,896	629,413
2037-2041	342,250	8,693	350,943
Total	\$ 2,476,958	\$ 203,332	\$ 2,680,290

Bonds Payable

In 2018, the district authorized and issued 20-year revenue bonds in the amount of \$3,450,000. The proceeds reimbursed expenditures on current capital projects in progress in the amount of \$1,673,073 and the remaining \$1,929,106 invested in the WA State Local Government Investment Pool restricted for future capital projects.

The District's Long-Term bonds payable, as December 31, 2022, and 2021 respectively, are as follows:

Name of Issuance	Issuance Date	Maturity Date	Interest Rate	Original Amount	12/31/2022 Debt Outstanding	12/31/2021 Debt Outstanding
2018 Revenue Bonds	9/13/2018	12/1/2038	3% - 4.25%	\$ 3,450,000	\$ 2,970,000	\$ 3,100,000

Fiscal Year Ending December 31, 2022, the annual requirements to amortize bonds outstanding, including interest are as follows:

Year	Bond	Interest	Total
2023	\$ 130,000	\$ 119,613	\$ 249,613
2024	140,000	114,413	254,413
2025	150,000	108,812	258,812
2026	155,000	102,813	257,813
2027	160,000	96,612	256,612
2028-2032	900,000	378,212	1,278,212
2033-2037	1,090,000	183,200	1,273,200
2038	245,000	9,800	254,800
Total	<u>\$ 2,970,000</u>	<u>\$ 1,113,475</u>	<u>\$ 4,083,475</u>

Fiscal Year Ending December 31, 2021, the annual requirements to amortize bonds outstanding, including interest are as follows:

Year	Bond	Interest	Total
2022	\$ 130,000	\$ 123,513	\$ 253,513
2023	130,000	119,613	249,613
2024	140,000	114,413	254,413
2025	150,000	108,813	258,813
2026	155,000	102,813	257,813
2027-2031	865,000	413,625	1,278,625
2032-2036	1,050,000	225,200	1,275,200
2037-2038	480,000	29,000	509,000
Total	<u>\$ 3,100,000</u>	<u>\$ 1,236,990</u>	<u>\$ 4,336,990</u>

b. Changes in Long-Term Liabilities:

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

Liability	Beginning Balance 01/01/2022	Additions	Reductions	Ending Balance 12/31/2022	Due Within One Year
Direct Borrowing Loans Payable:					
Public Works Trust Fund Loans	\$ 1,249,970	\$ -	\$ 114,331	\$ 1,135,639	\$ 89,871
Public Works DWSRF Loan	1,226,988	760,856	74,013	1,913,831	74,013
Subtotal Loans Payable	2,476,958	760,856	188,344	3,049,470	163,884
Bonds Payable					
Revenue Bonds	3,100,000	-	130,000	2,970,000	130,000
Issuance Premium	198,921	-	11,759	187,162	11,759
Subtotal Bonds Payable	3,298,921	-	141,759	3,157,162	141,759
Compensated Absences	271,235	-	141,519	129,716	71,344
Asset Retirement Obligation	98,249	5,896	-	104,145	-
Net Pension Liability	68,377	72,456	-	140,833	-
Total Long-Term Liabilities	<u>\$ 6,213,740</u>	<u>\$ 839,208</u>	<u>\$ 471,622</u>	<u>\$ 6,581,326</u>	<u>\$ 376,987</u>

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

Liability	Restated Beginning Balance 01/01/2021	Additions	Reductions	Ending Balance 12/31/2021	Due Within One Year
Direct Borrowing Loans Payable:					
Public Works Trust Fund Loans	\$ 481,317	\$ 901,811	\$ 133,158	\$ 1,249,970	\$ 69,241
Public Works DWSRF Loan	1,301,000	-	74,012	1,226,988	119,103
Subtotal Loans Payable	1,782,317	901,811	207,170	2,476,958	188,344
Bonds Payable					
Revenue Bonds	3,230,000	-	130,000	3,100,000	130,000
Issuance Premium	210,680	-	11,759	198,921	11,759
Subtotal Bonds Payable	3,440,680	-	141,759	3,298,921	141,759
Compensated Absences	208,759	62,476	-	271,235	110,227
Asset Retirement Obligation	91,779	6,470	-	98,249	-
Net Pension Liability	268,629	-	200,252	68,377	-
Total Long-Term Liabilities	\$ 5,792,164	\$ 970,757	\$ 549,181	\$ 6,213,740	\$ 440,330

NOTE 8 – PENSION PLAN

The following table represents the aggregate pension amounts for all plans for the year 2022 and 2021:

Aggregate Pension Amounts - All Plans		
	12/31/2022	12/31/2021
Pension liabilities	\$ 140,833	\$ 68,377
Pension assets	244,742	716,339
Deferred outflows of resources	256,083	82,369
Deferred inflows of resources	251,519	741,962
Pension expense/expenditures	(38,898)	(151,771)

State Sponsored Pension Plans

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

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

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 2022 were as follows:

2022 PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	10.25%	6.00%
September - December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

2021 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 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.

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 fiscal year 2022 were as follows:

2022 PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January - August 2022:		
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%
September - December 2022:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.39%	6.36%

The District's actual PERS plan contributions were \$30,136 to PERS Plan 1 and \$51,072 to PERS Plan 2/3 for the year ended December 31, 2022.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2021 were as follows:

2021 PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2021:		
PERS Plan 2/3	7.92%	7.9%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.9%
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 PERS plan contributions were \$34,503 to PERS Plan 1 and \$57,397 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. 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 *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

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 their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019, Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020, AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0 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 7.0 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 7.0 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, 2022, are summarized in the table below. The inflation component

used to create the table is 2.20 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	20.00%	1.50%
Tangible Assets	7.00%	4.70%
Real Estate	18.00%	5.40%
Global Equity	32.00%	5.90%
Private Equity	23.00%	8.90%
	100.00%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6 percent) or 1-percentage point higher (8 percent) than the current rate.

2022	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	188,151	140,833	99,536
PERS 2/3	288,216	(244,742)	(682,602)

2021	1% Decrease 6.40%	Current Rate 7.40%	1% Increase 8.40%
PERS 1	116,484	68,377	26,423
PERS 2/3	(204,071)	(716,339)	(1,138,192)

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, 2022 and 2021, the District reported its proportionate share of the net pension liabilities or assets as follows:

Plan	Liability or (Asset)	
	2022	2021
PERS 1	\$ 140,833	\$ 68,377
PERS 2/3	(244,742)	(716,339)

At June 30, 2022, the District's proportionate share of the collective net pension liabilities or assets were as follows:

	Proportionate Share 06/30/2021	Proportionate Share 06/30/2022	Change in Proportion
PERS 1	0.00560%	0.00506%	-0.00054%
PERS 2/3	0.00719%	0.00660%	-0.00059%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

Pension Expense

For the year ended December 31, 2022, and December 31, 2021, the District recognized pension expense as follows:

	Pension Expense	
	2022	2021
PERS 1	\$ 46,849	\$ 5,445
PERS 2/3	(85,747)	(151,216)
Total	\$ (38,898)	\$ (151,771)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (23,340)
Contributions subsequent to the measurement date	16,356	-
TOTAL	\$ 16,356	\$ (23,340)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,641	\$ (5,540)
Net difference between projected and actual investment earnings on pension plan investments	-	(180,940)
Changes of assumptions	136,410	(35,717)
Changes in proportion and differences between contributions and proportionate share of contributions	15,227	(5,982)
Contributions subsequent to the measurement date	27,449	-
TOTAL	\$ 239,727	\$ (228,179)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,641	\$ (5,540)
Net difference between projected and actual investment earnings on pension plan investments	-	(204,280)
Changes of assumptions	136,410	(35,717)
Changes in proportion and differences between contributions and proportionate share of contributions	15,227	(5,982)
Contributions subsequent to the measurement date	43,805	-
TOTAL	\$ 256,083	\$ (251,519)

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (75,875)
Contributions subsequent to the measurement date	13,148	-
TOTAL	\$ 13,148	\$ (75,875)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,792	\$ (8,782)
Net difference between projected and actual investment earnings on pension plan investments	-	(598,692)
Changes of assumptions	1,047	(50,872)
Changes in proportion and differences between contributions and proportionate share of contributions	10,842	(7,741)
Contributions subsequent to the measurement date	22,540	-
TOTAL	\$ 69,221	\$ (666,087)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,792	\$ (8,782)
Net difference between projected and actual investment earnings on pension plan investments	-	(674,567)
Changes of assumptions	1,047	(50,872)
Changes in proportion and differences between contributions and proportionate share of contributions	10,842	(7,741)
Contributions subsequent to the measurement date	35,688	-
TOTAL	\$ 82,369	\$ (741,962)

Deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. 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	PERS 2/3
2023	\$ (9,877)	\$ (54,172)
2024	(8,971)	(47,741)
2025	(11,254)	(58,633)
2026	6,762	89,992
2027	-	30,907
Thereafter	-	29,746

NOTE 9 ASSET RETIREMENT OBLIGATIONS

An Asset Retirement Obligation is a legally enforceable liability associated with the retirement of a tangible capital asset that has a substantial cost to a government. An ARO is recognized when the liability is incurred and reasonably estimable. Incurrence of a liability requires both an internal obligating event and an external obligating event resulting from normal operations. An internal obligating event includes acquiring or placing a capital asset into operation. An external obligating event requires federal, state, or local laws or regulations, a binding contract, or issuance of a court judgement requiring specific actions to retire an asset.

As of December 31, 2022, the District owns, operates, and maintains 4 wells having average estimated useful lives remaining of 28 years that it also does not foresee decommissioning in the future; however, in the event that the District were to decommission these wells there are specific decommissioning requirements within the Washington Administrative Code (WAC) 173-160-381. The District developed a management estimate for the District's ARO liability at December 31, 2021, and December 31, 2022, of \$98,249 and \$104,145, respectively. Additionally, the District has recorded a deferred outflow of \$39,149 and \$43,367, respectively. The obligation will be paid from operating income of the District; no assets have been set aside to fund this obligation.

NOTE 10 – RISK MANAGEMENT

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

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; 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	\$20,000,000
Earthquake	See (B) below	See (B) below	\$100,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

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

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

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

NOTE 11 – PRIOR PERIOD ADJUSTMENT

The District recorded a Prior Period Adjustment as of December 31, 2021, for \$57,643 due to recording of the Asset Retirement Obligation one year after the implementation period.

NOTE 12 – SUBSEQUENT EVENT

On August 16, 2023, the District entered into a line of credit that is authorized at \$5,200,000 and has an interest rate of 5.75%. The purpose of the line of credit is to fund the construction of water and sewer infrastructure projects and to purchase new equipment.

Beacon Hill Water & Sewer District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)

PERS 1

As of June 30

Last Nine Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2022	0.005058%	\$ 140,833	\$ 725,826	19.40%	76.56%
2021	0.005599%	68,377	928,072	7.37%	88.74%
2020	0.005165%	182,352	814,285	22.39%	64.48%
2019	0.005490%	211,110	741,287	28.48%	67.12%
2018	0.005421%	242,104	721,115	33.57%	63.22%
2017	0.005359%	254,289	675,749	37.63%	61.24%
2016	0.005438%	292,046	673,785	43.34%	57.03%
2015	0.006205%	324,579	711,100	45.64%	59.10%
2014	0.005881%	296,258	599,136	49.45%	61.19%

Beacon Hill Water & Sewer District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability (Asset)

PERS 2/3

As of June 30

Last Nine Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
		\$	\$		
2022	0.006599%	(244,742)	725,826	-33.72%	106.73%
2021	0.007191%	(716,339)	928,072	-77.19%	120.29%
2020	0.006746%	86,277	814,285	10.60%	97.22%
2019	0.007086%	68,829	741,287	9.29%	97.77%
2018	0.006978%	119,143	721,115	16.52%	95.77%
2017	0.006893%	239,499	675,749	35.44%	90.97%
2016	0.006976%	351,236	673,785	52.13%	85.82%
2015	0.008013%	286,309	711,100	40.26%	89.20%
2014	0.007832%	158,313	599,136	26.42%	93.29%

Beacon Hill Water & Sewer District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 1
As of December 31
Last Nine Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2022	\$ 30,136	\$ (30,136)	\$ -	\$ 803,015	3.75%
2021	34,503	(34,503)	-	802,206	4.30%
2020	42,479	(42,479)	-	835,381	5.08%
2019	38,509	(38,509)	-	777,059	4.96%
2018	37,297	(37,297)	-	737,042	5.06%
2017	34,349	(34,349)	-	701,334	4.90%
2016	31,653	(31,653)	-	663,583	4.77%
2015	30,266	(30,266)	-	661,216	4.58%
2014	27,060	(27,060)	-	657,711	4.11%

Beacon Hill Water & Sewer District
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions
PERS 2/3
As of December 31
Last Nine Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
	\$	\$	\$	\$	
2022	51,072	(51,072)	-	803,015	6.36%
2021	57,397	(57,397)	-	802,206	7.15%
2020	70,108	(70,108)	-	835,381	8.39%
2019	59,899	(59,899)	-	777,059	7.71%
2018	55,272	(55,272)	-	737,042	7.50%
2017	48,034	(48,034)	-	701,334	6.85%
2016	41,342	(41,342)	-	663,583	6.23%
2015	38,849	(38,849)	-	661,216	5.88%
2014	33,515	(33,515)	-	657,711	5.10%

Beacon Hill Water & Sewer District
Notes to Required Supplemental Information - Pension

As of December 31
Last Nine Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2014, therefore there is no data available for years prior to 2014. Eventually, the schedules will show ten years of data.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 3: Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

Note 4: Contribution rates

Rates in effect during the periods covered by the Required Supplemental Information are below:

PERS 1

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/7/2022	current	10.39% *

* Employer contribution rate includes an administrative expense rate of 0.18%

PERS 2/3

<u>From this</u>	<u>Through this</u>	
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/7/2022	current	10.39% *

* Employer contribution rate includes an administrative expense rate of 0.18%

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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