Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Northshore Utility District

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

Published December 7, 2023

Report No. 1033592

Office of the Washington State Auditor
Pat McCarthy

December 7, 2023

Board of Commissioners
Northshore Utility District
Kenmore, Washington

Report on Financial Statements

Please find attached our report on the Northshore Utility 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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TABLE OF CONTENTS

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*

Northshore Utility District
January 1, 2020 through December 31, 2020

Board of Commissioners
Northshore Utility District
Kenmore, 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 Northshore Utility District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit 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 opinion 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.

Pat McCarthy, State Auditor

Olympia, WA

November 20, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Northshore Utility District
January 1, 2020 through December 31, 2020

Board of Commissioners
Northshore Utility District
Kenmore, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Northshore Utility District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

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

Basis for Opinion

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 opinion.

Matters of Emphasis

As discussed in Note 10 to the 2020 financial statements, the 2019 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 11 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to the matter are also described in Note 11. Our opinion is not modified with respect to this matter.

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 opinion. 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 November 20, 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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

November 20, 2023

FINANCIAL SECTION

Northshore Utility District
January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2020

As management of the Northshore Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2020. We encourage readers to consider the information presented here in conjunction with the District's financial statements.

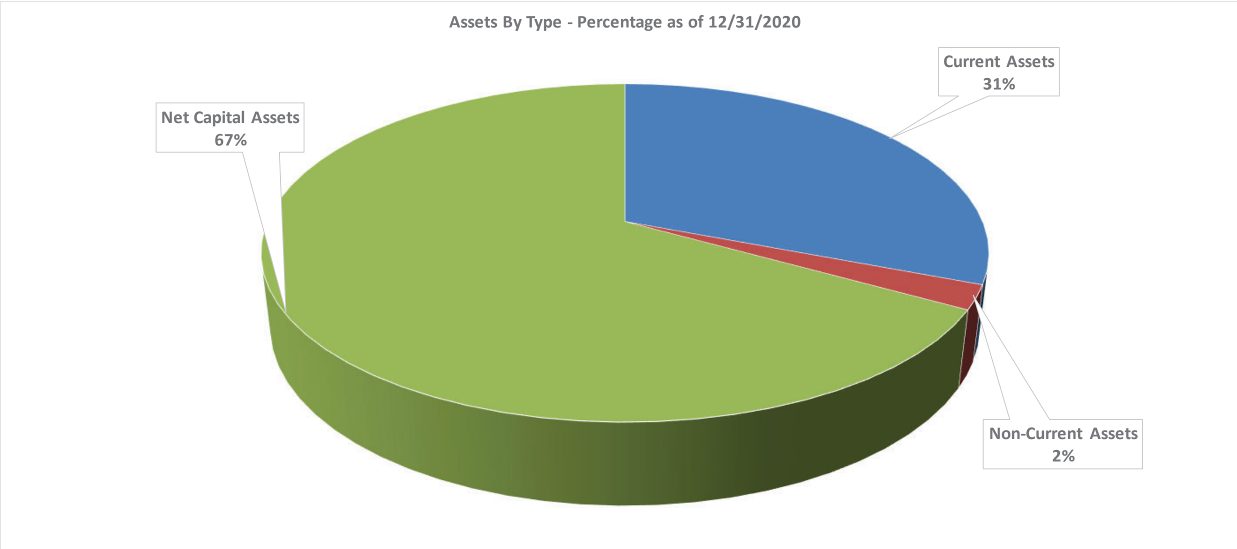
The financial position of the District has improved over prior years, which were mildly affected by an economic downturn and slow economic growth.

- As of the close of 2020, the assets of the District exceeded its liabilities, creating a net position of $218.4 million. The 2020 net position balance includes a negative prior period adjustment in the amount of $384K (see Note 10). In total, there was an increase in net position of $6.9 million over 2019.

- As of the close of 2020, the District cash balance was $65.6 million, representing an increase of $3 million from December 31, 2019.

The District had total operating income of $42.5 million and operating expenses of $41.4 million for the fiscal year ended December 31, 2020. This is compared to $42.1 million and $41.3 million in operating revenues and expenses, respectively, for 2019.

The vast majority of the District's assets are held in land, plant, and equipment. The chart below shows asset type by percentage, excluding deferred outflows:



Overview of the Financial Statements

The Management Discussion and Analysis (MD&A) is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of District-wide financial statements and notes to the financial statements. These statements establish standards for external financial reporting for all state and local government entities.

DISTRICT FINANCIAL STATEMENTS

The District's financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The ***Statement of Net Position*** presents information on all the District's assets and deferred outflows vs. liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Assets are designated as either "Unrestricted" or "Restricted" based upon their purpose. Restricted assets are those subject to constraints that are externally imposed, such as those imposed by creditors through debt covenants. Funds without a designated purpose are referred to as "Unrestricted."

Total current assets increased $4.8 million during the year. This includes an increase in cash of $3 million and accounts receivable of $2 million. Other current assets decreased $143K. Non-current assets increased by $22K.

Total gross capital assets increased by $8 million. Construction in progress increased $994K.

Total current liabilities increased by $ 878k during the year. Accounts payable increased $1.2 million during the year, due to timing differences. Other current liabilities decreased by $153K.

The ***Statement of Revenues, Expenses, and Changes in Net Position*** presents information showing how the District's financial position changed during the most recent fiscal year. All changes 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 flows in future fiscal periods (e.g., depreciation as well as earned but unused vacation leave).

Gross utility revenues increased $552K during the year. Sewer service revenues increased slightly by $193K, and water revenues increased $355K. There were no rate changes during 2020.

Connection fees increased $527K during the year. All other elements of non-operating income did not change significantly.

Total operating expenses increased $123K during the year. Wholesale costs decreased $386K, which was expected. Depreciation expense decreased $617K due to catch-up depreciation adjustments made in 2019.

The ***Statement of Cash Flows*** accounts for the net change in cash and cash equivalents by summarizing cash receipts and cash disbursements resulting from operating activities, capital, and related financing and investment activities. This statement assists the user in determining the source of cash coming into the District, the items for which cash was expended, and the beginning and ending cash balance.

The notes provide additional information which are essential to a full understanding of the data provided in the District's financial statements.

The overall financial condition of the District continues to improve, as indicated by continued increases in net position throughout 2020 and 2019. Development in the District continues to show strength. Average investment rates of return dropped from 2.9% in 2019 to 2.1% in 2020. This drop was primarily due to the decrease in yields with US Treasury instruments, which make up the majority of the District's investments with the King County Investment Pool.

The net position of the District increased $6.9 million from $211.5 million in 2019 to $218.5 million in 2020. This is a result of net income of $4.9 million, contributed capital of $2.4 million and the negative prior period adjustment of $384K.

In 2020, most of the District's total gross operating and non-operating revenues (88.9%) was derived from water and wastewater service charges received from its ratepayers.

The District also derives cash flows from streetlight service, connection charges (facility benefit charges) and investment earnings.

Additional assets are received from developers in the form of infrastructure donated to the District upon completion of their projects (developer donated plant).

Condensed Statements of Net Position

	2020	2019	2020-2019 Change	Change %
Current Assets	$71,083,489	$66,281,146	$4,802,343	7.2%
Non-Current Assets	4,291,729	4,270,134	21,595	0.5%
Capital Assets				
(net of depreciation)	155,163,653	152,271,059	2,892,594	1.9%
Total Assets	$230,538,870	$222,822,338	$7,716,532	3.5%
Total Deferred Outflows	$881,432	$875,389	$6,043	0.7%
Current Liabilities	$5,041,059	$4,163,006	$878,053	21.1%
Non-Current Liabilities	6,968,018	6,471,119	496,898	7.7%
Total Liabilities	$12,009,077	$10,634,126	$1,374,951	12.9%
Total Deferred Inflows	$958,365	$1,558,710	($600,345)	-38.5%
Net Position:				
Net Investment in				
Capital Assets less Debt	$152,913,231	$149,743,989	$3,169,242	2.1%
Unrestricted Net Position	65,539,629	61,760,903	3,778,726	6.1%
Total Net Position	$218,452,860	$211,504,892	$6,947,968	3.3%

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2020	2019
Operating Revenues:		
Sewer	**$26,202,655**	**$26,009,498**
Water	**16,513,630**	**16,158,328**
Other	**1,530,848**	**1,664,033**
Less discounts	**(1,702,935)**	**(1,761,151)**
Non-Operating Revenues:		
Facility benefit charges	**2,260,304**	**1,733,641**
Other	**1,566,982**	**1,543,380**
Total Revenues	**$46,371,484**	**$45,347,729**
Operating Expenses	**$41,420,815**	**$41,297,870**
Non-Operating Expenses	**9,951**	**438,984**
Total Expenses	**$41,430,766**	**$41,736,854**
Income Before Plant Donation	**$4,940,718**	**$3,610,875**
Developer donated plant	**2,391,250**	**5,965,438**
Change in Net Position	**$7,331,968**	**$9,576,313**
Beginning Net Position	**211,504,892**	**201,928,578**
Prior Period Adjustment	**(384,000)**	
Ending Net Position	**$218,452,860**	**$211,504,892**

CAPITAL ASSETS AND DEBT ADMINISTRATION

The largest portion of the District's total assets (67.1%) is its investment in capital assets net of accumulated depreciation. The District uses these capital assets to provide water and sewer services to residential and commercial ratepayers in the District. The unrestricted net position of the District represents assets that are available for future use to provide utility services.

As of December 31, 2020, the District's gross capital assets shown on the Statement of Net Position was $267.4 million. This is an increase of $8 million (3%) from December 31, 2019. Net Capital Improvement Projects increased by $994K during the year and gross completed water and sewer projects placed into production increased by $4 million during the same period. Accumulated depreciation increased by $ 5.15 million. Please refer to Note 3.

LONG-TERM DEBT

The District has historically sought Public Works Trust Fund (PWTF) loans issued by the Washington Public Works Board to finance its water and sewer capital projects. These loans are offered to competing public entities to fund capital projects. The current annual interest rate on these loans ranges from 0.25% to 1.0%. The total debt principal outstanding as of December 31, 2020 was $2.3 million consisting solely of PWTF loans. During 2020 current payments against this debt were made in the amount of $277K. See detailed information in Note 5.

Statement of Net Position
As of December 31, 2020

	2020
ASSETS	
Current Assets:	
Cash and cash equivalents (net)	$61,571,850
Accounts receivable	6,306,128
Estimated unbilled service revenue	2,379,933
Inventory	797,749
Other current assets - prepaid items	27,829
TOTAL CURRENT ASSETS	$71,083,489
Non-current and Other Assets:	
Non-Current US Treasury Investments (net)	$4,013,445
Assessments receivable	19,189
Installment contracts receivable	259,094
TOTAL NON-CURRENT AND OTHER ASSETS	$4,291,729
Capital Assets:	
Non-depreciable - Land and land rights	$2,716,660
Non-depreciable - Construction in progress	6,900,111
Depreciable assets:	
Buildings	17,455,037
Equipment and vehicles	7,511,174
Sewer utility plant	117,351,935
Water utility plant	115,496,792
Less: Accumulated depreciation	(112,268,057)
Total Capital Assets	$155,163,653
TOTAL NON-CURRENT AND OTHER ASSETS	$159,455,381
TOTAL ASSETS	$230,538,870
DEFERRED OUTFLOWS OF RESOURCES	$881,432
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$231,420,302

The notes to these financial statements are an integral part of this statement.

Statement of Net Position
As of December 31, 2020

	2020
LIABILITIES	
Current Liabilities:	
Accounts payable	$4,757,641
Current portion of State Public Trust Fund Loans	276,648
Accrued interest payable	6,770
TOTAL CURRENT LIABILITIES	$5,041,059
Non-current Liabilities:	
Accrued employee benefits	$370,068
State Public Trust Fund Loans	1,973,773
Net Pension Liability	1,366,865
Net OPEB Liability	3,257,312
TOTAL NON-CURRENT LIABILITIES	$6,968,018
TOTAL LIABILITIES	$12,009,077
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	$958,365
TOTAL DEFERRED INFLOWS OF RESOURCES	$958,365
NET POSITION	
Net investment in capital assets	$152,913,231
Unrestricted net position	65,539,629
TOTAL NET POSITION	$218,452,860
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$231,420,302

The notes to these financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2020

	2020
OPERATING REVENUES	
Utility Sales - Sewer service	$26,202,655
Utility Sales - Water service	16,513,630
Utility Sales - Street light service	211,606
Less: Discounts and adjustments	(1,702,935)
Net Utility Sales	$41,224,956
Other Operating Revenue	1,319,242
Total Operating Income	$42,544,198
OPERATING EXPENSES	
Sewage treatment charges	$16,477,417
Water purchased for resale	5,781,388
Cost of street lighting	121,548
Maintenance	7,543,637
Administration - General	5,050,581
Depreciation	5,337,242
Property, Excise, and B&O Tax	1,109,003
Total Operating Expenses	$41,420,815
OPERATING INCOME (LOSS)	$1,123,383
NON-OPERATING REVENUES (EXPENSES)	
Connection fees	$2,260,304
Assessment interest income	14,959
Investment interest income	1,350,691
Gain (loss) from disposition of assets	50,539
Loan interest expense	(9,951)
Other Non-Operating Income	150,793
Total Non-operating Revenues	$3,817,335
Income Before Capital Contributions	$4,940,718
Capital Contributions - Developer donated plant	2,391,250
INCREASE IN NET POSITION	$7,331,968
TOTAL NET POSITION, January 1, 2020	211,504,891
PRIOR PERIOD ADJUSTMENT (SEE NOTE 10)	(384,000)
TOTAL NET POSITION, December 31, 2020	$218,452,860

The notes to these financial statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended December 31, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts for utility services	$40,457,241
Payments to wholesale service providers	(21,676,545)
Payments for state and local taxes	(1,109,003)
Payments for payroll and related costs	(4,860,279)
Payments for administration and operations	(7,500,261)
Net cash provided by operating activities	$5,311,154
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
(Purchase)/sale of capital assets - equipment	($1,581,487)
Purchase or reclassification of system expansion	(1,619,465)
(Purchase)/sale of land rights	(2,637,633)
Receipts from connection fees	2,411,097
Principal paid on capital debt	(276,648)
Interest paid on capital debt	(3,181)
Net receipts on disposal of capital assets	50,539
Net cash used in capital and related financing activities	($3,656,779)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	$1,350,691
Interest on contracts	14,959
Net cash provided by investing activities	$1,365,650
Net (decrease) increase in cash and cash equivalents	$3,020,025
Cash balance - beginning of year	62,565,271
Cash balance - end of year	$65,585,296
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Contribution of capital assets from developers	$2,391,250

The notes to these financial statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended December 31, 2020

	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	
Operating income	$1,123,383
Adjustments to reconcile operating income to net cash:	
Provided by operating activities:	
Depreciation expense	5,337,242
GASB 68 pension expense not impacting cash	(841,282)
GASB 75 OPEB expense not impacting cash	638,373
Changes in current assets and liabilities:	
(Increase)/Decrease in accounts receivable	(1,913,971)
(Increase)/Decrease in inventory	(172,986)
(Increase)/Decrease in other operating assets	283,044
Increase/(Decrease) in accounts payable	863,957
Increase/(Decrease) in accrued payroll benefits	153,543
Increase/(Decrease) in other operating liabilities	(160,148)
Net cash provided by operating activities	$5,311,154

The notes to these financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northshore Utility District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. Reporting Entity

Northshore Utility District is a municipal corporation governed by an elected five-member board of commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 of the Revised Code of Washington (RCW).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. An exception to full accrual is that interest on assessments is recorded when received. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate fund.

The District distinguishes between operating revenues and expenses from non-operating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principle operating revenues of the District are charges to ratepayers for water, sewer and streetlight services. Unbilled utility service receivables are estimated and recorded at year-end. Operating expenses of the District include the cost of sales and services, maintenance and administration expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District implemented the Governmental Accounting Standards Board (GASB) Statement No. 34 (Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments) model of financial reporting in 2003, Statement No. 63 (Financial Reporting of Deferred Inflows

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and Outflows of Resources, and Net Position) in 2013, Statement No. 68 (Accounting and Financial Reporting for Pensions) in 2016 and Statement No. 75 (Accounting and Financial Reporting for Postemployment Benefits Other than Pensions) in 2018. These statements establish standards for external financial reporting for all state and local government entities.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District maintains a deposit relationship with a local commercial bank, which was selected through the contracting of treasury services provided by King County, the *ex officio* Treasurer for the District.

d. Capital Assets

See Note 3

e. Receivables

The District records receivables when billing takes place. The District takes advantage of its authority to file liens against properties with delinquent utility charge balances. Such liens are recorded with the King County Recorder's office and are maintained until the balances are paid in full. Interest is assessed on these accounts until paid. For this reason, there is not an allowance for bad debts.

f. Inventory

Inventory is valued at the average acquisition cost, which approximates the market value. The District performs periodic inventory cycle counts, and a completed annual physical inventory count at year-end.

g. Investments

District funds not required for immediate expenditure are invested by King County in the King County Investment Pool. Investments are stated at fair value. For various risks related to the investments, see Deposits and Investments Note No. 2.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unused/accrued leaves for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 240 hours, is payable upon resignation, retirement or death.

Compensatory time is given to all exempt employees working more than 8 hours per day, on a 1:1 basis. Compensatory time for exempt employees has no cash value and can only be used in lieu of vacation or sick leave. An exempt employee can accrue no more than 240 hours of compensatory time. Anything earned but not used, in excess of 240 hours, is lost. Non-exempt employees can either be paid for hours worked in excess of 8 hours per day at a 1:1.5 rate or they can convert it to compensatory time at the same rate. Non-exempt employees can cash out compensatory time. If compensatory time for non-exempt employees exceeds 80 hours, the excess over 80 hours will be automatically cashed out each month.

Effective January 1, 2018 the State of Washington changed its sick leave laws. Prior to 2018, employers were not required to grant sick leave accruals to employees, although the District allowed an accrual of 8 hours per month for all full-time employees. Effective with the new law change, employers are required to accrue a minimum of 1 hour of sick leave for every 40 hours worked per month, for all employees regardless of their status.

With the change in law, the District decided to continue accruing 8 hours per month for all full-time employees, and a minimum of 1 hour for every 40 hours worked for all seasonal or part-time employees. These hours accrue in two separate sick leave banks; statutory and supplemental. Statutory sick leave (that which is accrued at 1 hour for every 40 hours worked) must be used in its entirety before supplemental sick leave can be used. At the end of each year, employees are allowed to carryover a maximum of 48 hours of statutory sick leave, and the balance is transferred to supplemental sick leave. Sick leave may accumulate indefinitely and is payable upon the following conditions:

- The District will pay 100% of accrued and unused sick leave upon the death of an active employee.
- The District allows all employees to cash out accrued sick leave hours credited during the preceding calendar year, less any sick leave used during the same calendar year, up to a maximum of 56 hours if the employee has a balance of 224 hours in unused/accrued sick leave before cash-out. The employee can cash out either statutory or supplemental sick leave.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

- Upon termination of employment, employees are allowed to cash out all statutory sick leave in their bank.

i. Construction Financing

In 1985, the District started a series of public works projects to replace aging components of the District's sewer and water systems. The District primarily funds these select capital improvements from accumulated reserves. However, the District has borrowed funds from the Public Works Trust Fund for a portion of these improvements. The details surrounding these loans can be seen in Note 5 – Long-Term Debt. Where applicable, property owners connecting to these facilities in the future will reimburse the District for the cost of these projects plus interest. In some instances, the District has started these projects in response to customers' needs, such as failed septic systems. In other instances, the District has tried to install facilities prior to major street resurfacing projects by King County and other municipalities for cost savings. Developers also build regular system extensions. Upon the completion of the project, the developer donates those installed facilities to the District as system extensions. Developer donations are recorded at the developer's cost of the improvements.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

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

b. Investments

In accordance with State law, the District's governing body has entered into a formal interlocal agreement with King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (KCIP). Investments in the King County Investment Pool are stated at fair value.

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Investment ID	3506	3502	3503	3504	3505	Totals
Maturity	1/31/2021	1/31/2022	1/31/2024	11/15/2025	11/15/2027	
Term (Years)	1.08	3.09	5.09	6.89	8.89	
Par Value	$979,000	$1,007,000	$998,000	$1,011,000	$1,021,000	**$5,016,000**
					Discount	**-$23,555**
					Book Value	**$4,992,445**

In 2017 King County added a long-term option to their Pool, called the Pool Plus Program (PPP). This option was created for agencies who have excess funds to invest in instruments with maturities beyond the maximum maturity limit established for the KCIP. There are circumstances where the investment horizon of the KCIP is not aligned with the long-term investment horizon of the agency or district. This program provides an investment option that allows a participant in the KCIP to request the County to combine a portfolio of individual long-term securities in the same fund that is invested in the KCIP. Late in 2018 the District applied for and was accepted into the PPP. In December 2018, the District's Board of Commissioners passed Resolution 2018-12-01 which granted the General Manager and Finance Director to make investment decisions for the PPP. In January 2019 the District's Board of Commissioners approved Resolution 2019-01-01 which called for the transfer of $20 million into a new fund set up with King County to hold the PPP investments. On January 4, 2019, the District made its first purchase of instruments under the PPP. The details of these purchases are as follows:

As of December 31, 2020, the book value of these investments was $4,992,445 net of unamortized discount of $23,555. The portion of these investments maturing within the coming year is $979,000 and is included in the District's current cash balances. The remaining $4,013,445 is classified as non-current investments. As these investments mature, they will be replaced with the same type of instrument with the same length of maturity. The approximately $15 million in the new fund not invested in longer-term maturity instruments is invested the standard KCIP portfolio.

As of December 31, 2020, the District had the following investments:

Year	Investment Type	Fair Value	Avg. Duration
2020	King County Investment Pool	$60,335,458	0.92 Years
2020	King County Pool Plus	4,992,445	5.01 Years
	Totals	**$65,327,903**	***1.25 Years**

***Weighted Average Duration**

Impaired Investments. As of December 31, 2020, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal is $34,688 and its fair value of these investments is $21,633.

Interest Rate Risk. As of December 31, 2020, the Pool's average duration was 1.2 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

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

NOTE 3 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than $5,000 and an estimated useful life in excess of one year.

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

Utility plants in service and other capital assets are recorded at cost. Donations by developers are recorded at the developer's cost.

NOTE 3 – CAPITAL ASSETS (continued)

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

	Beginning Balance at 1/1/2020	Increase	Decrease	Ending Balance at 12/31/2020
Capital assets not being depreciated:				
Land & land rights	$2,716,476	$185	$0	$2,716,660
Construction in progress	5,906,309	5,265,307	(4,271,505)	6,900,111
Total non-depreciable assets	$8,622,785	$5,265,492	($4,271,505)	$9,616,771
Capital assets being depreciated:				
Buildings	$14,817,589	$2,637,448	$0	$17,455,037
Equipment	7,109,319	620,479	(218,624)	7,511,174
Sewer utility plant	114,937,149	2,414,786	0	117,351,935
Water utility plant	113,900,862	1,595,930	0	115,496,792
Total depreciable assets	$250,764,919	$7,268,643	($218,624)	$257,814,938
Less accumulated depreciation for:				
Buildings	($6,949,268)	($422,046)	$0	($7,371,315)
Equipment and vehicles	(5,444,118)	(617,363)	218,624	(5,842,857)
Sewer utility plants	(48,160,277)	(2,268,054)	0	(50,428,331)
Water utility plants	(46,562,982)	(2,062,573)	0	(48,625,555)
Total accumulated depreciation	($107,116,645)	($5,370,036)	$218,624	($112,268,057)
Total Capital Assets, net	$152,271,059	$7,164,098	($4,271,505)	$155,163,653

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

Capital assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings	20 to 30 years
Vehicles	3 to 10 years
Office and Engineering Equipment	3 to 10 years
Utility Plants	10 to 50 years

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

NOTE 4 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenditures to date on capital projects, which totaled $11.2 million as of December 31, 2020. Costs are accumulated for each project and transferred to the relevant capital asset upon completion. Depreciation does not commence until the project is completed. Project details as of December 31, 2020 were as follows:

Project	**2020**
1821-Totem Lake Emergency Wastewater Conveyance Plan	$1,843,518
1805-Slough/ 68 City Bridge Water Main	778,166
1618-2019 Sewer CIPP Rehab	733,370
1804-Slough/68 City Bridge-Water Main	384,649
1999-CIS Project 2019	315,810
1506-SR 522 Stage 3-City of Bothell Water and Sanitary Sewer	262,118
RWA-PP&S Water	181,612
1811-City of Kenmore-68 Ave NE Pedestrian & Bicycle Impr	172,680
1812-Water Main Replacement	140,559
1805-Slough/ 68 City Bridge Water Main	132,143
1520-Holmes PT Dr Water Main Replacement	109,968
1502-Lake Forest Park Reservoir and Pump House	95,019
1808-Inglemoor Standpipe-Interior Coating Repairs	85,213
C928-451 Pressure Zn PRV & Hydro Turbine	78,762
1631-Sewer Plan Amendment-Flow Monitoring, Modeling and	73,384
1618-2019 Sewer CIPP Rehab	70,753
1717-WSDOT 132/I-405 Interchange	70,739
1611-100th Ave NE Corridor Improvements-COK	70,292
1701-130/104 Juanita High Totem Lake Trunk Replacement	64,726
1515-Totem Lake Regional Improvements	64,619
1821-Totem Lake Emergency Wastewater Conveyance Plan	62,945
2005-Totem Lk Blvd/120 Intersection Improvements	60,559
5010-Truck #11 W/Dump Body	59,874
1812-Water Main Replacement	58,971
1502-Lake Forest Park Reservoir and Pump House	53,779
1716-Totem Lake Water Sys380 South Pressure Zone	48,824
1813-Building A Improvements	47,398
1717-WSDOT 132/I-405 Interchange	45,818
1813-Building A Improvements	45,063
1915-Emergency Response Plan Update - Risk & Resiliency	44,066
1521-165/81 Water Main Replacement	43,096
1522-161/71 Water Main Replacement	41,339
1804-Slough/68 City Bridge-Water Main	40,383
1619-124/113 Totem Lake Sewer Truck Bypass	38,841
1515-Totem Lake Regional Improvements	37,777
1906-Shake Alert Implementation	32,864
1707-141/111 Culvert Replacement - Kirkland	30,744
Other Miscellaneous Projects	379,672
	$6,900,111

NOTE 5 – LONG-TERM DEBT

a. Junior Lien Loans

The District had junior lien loans of $2,250,421 as of December 31, 2020 from the Washington Public Works Trust Fund, including current portions of $276,648 for 2020.

The District has four loans currently outstanding from the Washington State Public Works Trust Fund.

Year	Term in Years	Interest Rate	Proceeds Received	Loan Balance as of 12/31/20
2002	20	0.5%	$408,000	$43,350
2004	20	0.5%	862,570	182,988
2005	20	0.5%	878,454	231,172
2011	20	0.5%	3,105,000	1,792,911
			$5,254,024	**$2,250,421**
			Less current maturity	(276,648)
			Long-term portion	**$1,973,773**

The proceeds from these low interest loans are used for water main replacement and sewer main extension programs. The principal is repaid in up to twenty equal annual installments.

The District has not obtained short-term debt in the past. It does not anticipate obtaining short-term debt in the future.

NOTE 5 – LONG-TERM DEBT (concluded)

b. Long-Term Debt Service Schedule

Year	Public Works Trust Fund Loans Principal	Interest	Total Cash Flow
2021	$276,648	$6,770	$283,418
2022	276,648	5,794	282,442
2023	254,973	4,818	259,792
2024	254,973	3,951	258,924
2025	209,226	3,084	212,310
2026 - 2030	814,960	8,150	823,109
2031	162,992	407	163,399
Total	**$2,250,421**	**$32,974**	**$2,283,395**

c. Changes in Long-Term Liabilities

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Public Works Trust Fund Loans	**$2,250,421**	**$0**	**($276,648)**	**$1,973,773**	**$276,648**

NOTE 6 – PENSION PLAN

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 6 – PENSION PLAN (continued)

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

Aggregate Pension Amounts – All Plans	
Net Pension Liability	($1,366,865)
Deferred Outflows of Resources	$881,432
Deferred Inflows of Resources	($958,365)
Pension Expense - Combined	($248,199)

State Sponsored Pension Plans

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

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

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

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

Public Employee's 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.

NOTE 6 – PENSION PLAN (continued)

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.

PERS Plan 1 Contributions

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

PERS Plan 1		
Actual Contribution Rates	**Employer Plan 1**	**Employee Plan 1**
January – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**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

NOTE 6 – PENSION PLAN (continued)

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 Plans 2/3 Contributions

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

NOTE 6 – PENSION PLAN (continued)

PERS Plan 2/3		
Actual Contribution Rates	**Employer Plan 2/3**	**Employee Plan 2**
January – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.86%**	**7.90%**

The District's actual PERS plan contributions were $593,083 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

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

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

NOTE 6 – PENSION PLAN (continued)

Discount Rate

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

NOTE 6 – PENSION PLAN (continued)

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
	100%	

Sensitivity of the Net Pension Liability / (Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$1,161,359	$927,190	$722,972
PERS 2/3	$2,735,776	$439,675	($1,451,165)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the District reported a total pension liability of $1,366,865 for its proportionate share of the net pension liabilities as follows:

NOTE 6 – PENSION PLAN (continued)

	Net Pension Liability
PERS 1	($927,190)
PERS 2/3	($439,675)

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

	Proportionate Share 6/30/2019	Proportionate Share 6/30/2020	Change in Proportion
PERS 1	.031416%	.026262%	(.005154%)
PERS 2	.040532%	.034378%	(.006154%)

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

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

Pension Expense

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

	Pension Expense
PERS 1	($229,605)
PERS 2/3	($18,594)
TOTAL	**($248,199)**

NOTE 6 – PENSION PLAN (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

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

NOTE 6 – PENSION PLAN (continued)

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$0	$0
Net difference between projected and actual investment earnings on pension plan investments	$0	($5,162)
Changes of assumptions	$0	$
Changes in proportion and differences between contributions and proportionate share of contributions	$0	$
Contributions subsequent to the measurement date	$112,436	$
TOTAL PERS 1	**$112,436**	**($5,162)**
PERS 2	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$157,397	($55,102)
Net difference between projected and actual investment earnings on pension plan investments	$0	($22,329)
Changes of assumptions	$6,262	($300,336)
Changes in proportion and differences between contributions and proportionate share of contributions	$416,803	($575,436)
Contributions subsequent to the measurement date	$188,534	$0
TOTAL PERS 2/3	**$768,996**	**($953,203)**
TOTAL FOR ALL PLANS	**$881,432**	**($958,365)**

NOTE 6 – PENSION PLAN (concluded)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. 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 31st	PERS 1	PERS 2/3
2021	($23,426)	($239,511)
2022	($737)	($100,681)
2023	$7,148	($49,258)
2024	$11,853	$74,203
2025		($11,163)
Thereafter	$0	($46,331)
TOTALS	**($5,162)**	**($372,741)**

NOTE 7 – JOINT VENTURE

Snohomish River Regional Water Authority (SRRWA)
From the early 1950s to 1992, the Weyerhaeuser Company (Weyco) owned and operated a pulp mill in Everett, Washington, using a water right that allowed up to 36 million gallons per day (mgd) to be drawn from the adjacent Snohomish River for industrial use. Although Weyco closed the mill, it kept the 36 mgd water right.

In 1996, three public water utilities; The City of Everett, the Northshore Utility District (Northshore), and Woodinville Water District (Woodinville) formed the SRRWA and acquired Weyerhaeuser's water right to help meet water demands projected for the SRRWA service area. The Washington State Department of

Ecology approved the water right transfer, with an instantaneous withdrawal rate of 36 mgd and an annual quantity of 23.7 mgd. Following completion of the water right change process and related litigation, the SRRWA has engaged in strategic planning, preliminary engineering, and costing work to assess capital project development and operational path issues. This work is ongoing and projected to achieve initial beneficial use of the SRRWA water right by 2021, unless an extension is requested and granted.

In December 2004, the District signed a fixed quantity long-term supply agreement with Seattle Public Utilities (SPU). The supply quantity in the 60-year agreement is sufficient to supply the District for the duration of the agreement. This gives the District ample time to develop the Weyco source for the future. The District's goal is to have supply from both regional systems (Seattle and Everett) for added

NOTE 7 – JOINT VENTURE (concluded)

reliability. Since the cost for planning is not significant, the partners have agreed to explore all possible ways to develop the new source over the coming years. Transmission systems would need to be built to deliver the water to Northshore and/or Woodinville. Portions of the existing transmission systems might be utilized, including the new Clearview pipeline and reservoir. However, additional new pipelines would still be needed to extend from Clearview to Northshore and Woodinville. Any use of the Clearview pipeline and reservoir would need to be negotiated with the Clearview Water Supply Agency, which owns those facilities.

Until it is determined that this joint venture will ever be used to supply water to the District's customers, all costs incurred are being expensed immediately. There are, however, amounts that have been capitalized over the years. The capitalized amounts on the District's books include land valued at $264,610 and construction in progress of $181,611.

NOTE 8 – RISK MANAGEMENT

The District is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors, or omissions, stop gap, employment practices and employee benefits liability. Limits are $4 million per occurrence in the self-insured layer, and $21 million in limits above the self-insured layer is provided by reinsurance. Total limits are $25 million per occurrence subject to aggregates and sub-limits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $400 million per occurrence subject to aggregates and sub-limits. Automobile physical damage coverage is self-funded from the

NOTE 8 – RISK MANAGEMENT (continued)

members' deductible to $250,000 and insured above that to $100 million per occurrence subject to aggregates and sub-limits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of WCIA.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The following table represents the aggregate Other Postemployment Benefits (OPEB) amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020:

Aggregate OPEB Amounts – All Plans	
OPEB Liabilities	$3,257,312
OPEB Expenses/Expenditures	$638,373

OPEB Plan Description

The District is a participating employer in the state of Washington's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides other post-employment benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (continued)

subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 54 active plan members and 15 retired plan members as of December 31, 2020. The District payments were $68,885 to the plan for the year ended December 31, 2020.

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 7 percent, as well as what the OPEB 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.

	1% Decrease (6%)	**Current Healthcare Cost Trend Rate (7%)**	**1% Increase (8%)**
Total OPEB Liability	$2,699,437	$3,257,312	$3,987,519

The following presents the total OPEB liability of the district calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease (2.5%)	**Current Discount Rate (3.5%)**	**1% Increase (4.5%)**
Total OPEB Liability	$3,910,739	$3,257,312	$3,987,519

Changes in the OPEB Liability for 2020

OPEB Liability as of 1/1/2020	$2,618,939
Service Cost	108,703
Interest Cost	94,272
Changes in Experience Data and Assumptions	504,283
Benefit Payments	(68,885)
OPEB Liability as of 12/31/2020	**$3,257,312**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (concluded)

The District recognized OPEB expense for the years ended December 31, 2020 as follows:

Service Cost	$108,703
Interest Cost	94,272
Changes in Experience Data and Assumptions	504,283
Benefit Payments	(68,885)
OPEB Expense for 2020	**$638,373**

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

Methodology:	
Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2020
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A
Assumptions:	
Discount Rate[1]:	
Beginning of Measurement Year	3.50%
End of Measurement Year	2.21%
Projected Salary Changes	3.5% plus Service-Based Increases
Healthcare Trend Rates[2]	Initial rate is approximately 7%, trends down to about 5% in 2020
Mortality Rates:	
Base Mortality Table	Healthy RP-2000
Age Setback	1 Year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Pct.	65%
Percentage with Spouse Coverage	45%

[1] *Source: Bond Buyer General Obligation 20-Bond Municipal Index*

[2] *Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see OSA's 2018 PEBB OPEB Actuarial Valuation Report.*

NOTE 10 – PRIOR PERIOD ADJUSTMENT

In 2019 the District inadvertently understated healthcare costs by $384,000. The error was caused by duplicate entries made in the District's accounting systems. The error was detected late and the District chose to correct the misstatement with a prior period adjustment rather than recast the financial statements for the year ending December 31, 2019.

NOTE 11 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The District provides essential services to the public. Because of this, during 2020 certain utility, fleet, facilities, and finance employees were required to report to work daily. Other workers were allowed to work remotely from home. The front office lobby was closed to the public. As of the date of this report, all District staff are back in the office and the front lobby is open for all customer activity. Vendors are allowed inside the building by appointment only, and are then escorted throughout their stay.

The only costs incurred by the District during this pandemic were for computer infrastructure and services which allowed staff to work remotely, and personal protective equipment to ensure that our staff is as safe as possible. These costs incurred to-date are not considered to be material to the financial statements.

The District discontinued assessing late charges and service terminations prior to the Governor's mandate to do so. This mandate extended well past 2020 and was lifted on September 30, 2021.

REQUIRED SUPPLEMENTAL INFORMATION

The Northshore Utility District is presenting Required Supplemental Information (RSI) to meet minimum financial reporting requirements. This RSI, generally composed of schedules, statistical data and other information, is an integral part of the accompanying financial statements.

Northshore Utility District
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last 10 Fiscal Years Beginning 6/30/2016*

PERS PLAN 1	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability (asset)	0.026262%	0.031416%	0.033919%	0.033493%	0.032558%
Employer's proportionate share of the net pension liability	$927,190	$1,208,057	$1,514,834	$1,589,269	$1,748,518
Covered payroll	$4,930,373	$4,356,311	$4,507,421	$4,223,694	$3,831,649
Employer's proportionate share of the net pension liability as a percentage of covered payroll	18.81%	27.73%	33.61%	37.63%	45.63%
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%

PERS PLAN 2/3	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability (asset)	0.034378%	0.040532%	0.043753%	0.043081%	0.040906%
Employer's proportionate share of the net pension liability	$439,675	$393,704	$747,044	$1,496,859	$2,059,585
Covered payroll	$4,930,373	$4,356,311	$4,507,421	$4,223,694	$3,799,961
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.92%	9.04%	16.57%	35.44%	54.20%
Plan fiduciary net position as a percentage of the total pension liability	97.22%	97.77%	95.77%	90.97%	85.82%

Northshore Utility District
Schedule of Employer Contributions
For the year ended December 31, 2020
Last 10 Fiscal Years*

PERS PLAN 1	2020	2019	2018	2017	2016
Statutorily or contractually required contributions	$220,029	$215,598	$226,723	$219,176	$192,746
Contributions in relation to the statutorily or contractually required contributions	-$220,029	-$215,598	-$226,723	-$219,176	-$192,746
Contribution deficiency (excess)	$0	$0	$0	$0	$0
Covered payroll	$4,930,373	$4,356,311	$4,507,421	$4,223,694	$3,831,649
Contributions as a percentage of covered payroll	4.46%	4.95%	5.03%	5.19%	5.03%

PERS PLAN 2/3	2020	2019	2018	2017	2016
Statutorily or contractually required contributions	$371,725	$343,982	$345,719	$306,991	$251,428
Contributions in relation to the statutorily or contractually required contributions	-$371,725	-$343,982	-$345,719	-$306,991	-$251,428
Contribution deficiency (excess)	$0	$0	$0	$0	$0
Covered payroll	$4,930,373	$4,356,311	$4,507,421	$4,223,694	$3,799,961
Contributions as a percentage of covered payroll	7.54%	7.90%	7.67%	7.27%	6.62%

*Until a full 10-year trend is compiled, the District is presenting information only for those years which information is available.

REQUIRED SUPPLEMENTAL INFORMATION (concluded)

Northshore Utility District
Schedule of Changes in Total OPEB Liability and Related Ratios
Public Employees' Benefit Board (PEBB) Health Insurance Plan
Year Ended December 31, 2020

	2020	2019	2018
Total OPEB Liability – Beginning Balance	$2,618,939	$2,634,555	$2,598,389
Service Cost	108,703	103,053	120,987
Interest	94,272	104,603	96,690
Changes in Benefit Terms	-	-	-
Changes in Experience Data and Assumptions	504,283	(153,233)	(144,114)
Benefit Payments	(68,885)	(70,039)	(37,397)
Other Changes	-	-	-
Total OPEB Liability – Ending Balance	**$3,257,312**	**$2,618,939**	**$2,634,555**
Covered Employee Payroll	$4,931,200	$4,675,634	$4,244,174
Total OPEB Liability as a Percentage of Covered Payroll	**66.1%**	**56.0%**	**62.1%**

Notes to Supplementary Schedule:

Note 1:
This schedule will be built prospectively until it contains 10 years of data.

Note 2:
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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