



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

January 11, 2024

Board of Commissioners  
Silver Lake Water and Sewer District  
Bothell, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Silver Lake Water and Sewer District for the fiscal years ended December 31, 2020 and 2019. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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# **Silver Lake Water & Sewer District**



**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2020 AND 2019**



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**SILVER LAKE WATER AND SEWER DISTRICT  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF NET POSITION</b>	<b>12</b>
<b>STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>14</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>15</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>17</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS</b>	<b>44</b>
<b>SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	<b>45</b>
<b>SCHEDULES OF EMPLOYER PENSION CONTRIBUTIONS</b>	<b>46</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>48</b>
<b>DEPARTMENTAL SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>49</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>50</b>



## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Silver Lake Water and Sewer District  
Bothell, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Silver Lake Water and Sewer District (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility 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; this includes 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Silver Lake Water and Sewer District as of December 31, 2020 and 2019, and the changes in net position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

***Change in Accounting Principal***

As more fully described in Note 1, beginning net position for the year ended December 31, 2019 was restated to reflect the write off of certain previously capitalized assets to implement a change in the application of the capitalization threshold for capital assets. Our opinion was not modified with respect to the restatement.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Silver Lake Water and Sewer District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Commissioners  
Silver Lake Water and Sewer District

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 10, 2022, on our consideration of Silver Lake Water and Sewer 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 those reports is solely 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Silver Lake Water and Sewer District's internal control over financial reporting and compliance.

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

**CliftonLarsonAllen LLP**

Bellevue, Washington  
February 10, 2022

**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

## **INTRODUCTION**

Silver Lake Water and Sewer District was founded in 1934 and provides water and sewer services to customers residing within the District boundaries. The District's primary mission is to provide its customers with high quality water for today and into the future at a fair and equitable price, while meeting overall public and regulatory approval. The District has secondary goals of providing fire flow, maintaining level of service goals, and maintaining the financial health of the District. The District has prioritized the following goals and objectives:

1. Protect the health and safety of District employees and customers.
2. Meet or exceed regulatory requirements and industry standards for water quality, levels of service and operation and maintenance practices.
3. Provide a high standard of service at an affordable rate.
4. Provide fire flow while maintaining a minimum pressure of 20 psi system wide.
5. Maintain the financial viability of the District.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2020 and 2019 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The statements of net position present total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. These statements provide information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). They provide a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, and investing activities over the course of the year. They present information regarding where cash came from and what it was used for.

**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

	<b>2020</b>	<b>2019</b>	<b>* 2018</b>
Capital Assets	\$ 159,867,632	\$ 156,251,848	\$ 158,551,619
Other Assets	50,230,038	48,300,224	47,024,003
Total Assets	<u>210,097,670</u>	<u>204,552,072</u>	<u>205,575,622</u>
Deferred Outflows of Resources	<u>357,986</u>	<u>319,551</u>	<u>282,152</u>
Long-Term Liabilities	8,246,774	7,369,481	7,520,126
Other Liabilities	2,550,156	2,930,311	2,906,839
Total Liabilities	<u>10,796,930</u>	<u>10,299,792</u>	<u>10,426,965</u>
Deferred Inflows of Resources	<u>294,089</u>	<u>557,628</u>	<u>473,004</u>
Net Investment in Capital Assets	153,485,007	150,208,622	151,955,408
Unrestricted	45,879,630	43,805,581	43,002,397
Total Net Position	<u><u>\$ 199,364,637</u></u>	<u><u>\$ 194,014,203</u></u>	<u><u>\$ 194,957,805</u></u>

\* The 2018 financial statements have not been restated to reflect the change in capitalization threshold for certain previously capitalized capital assets.



**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION FOR THE YEARS ENDED DECEMBER 31**

	<b>2020</b>	<b>2019</b>	<b>* 2018</b>
Sewer Service Revenue	\$ 14,751,349	\$ 14,511,733	\$ 13,982,309
Water Service Revenue	6,280,127	6,217,419	6,092,751
Other Sewer Operating Revenues	222,800	172,145	268,260
Other Water Operating Revenues	420,982	385,158	384,237
Total Operating Revenues	<u>21,675,258</u>	<u>21,286,455</u>	<u>20,727,557</u>
Sewer Operation and Maintenance Expenses	10,433,178	9,350,819	8,863,230
Water Operation and Maintenance Expenses	3,189,153	3,569,481	3,270,577
Sewer General and Administrative Expenses	2,446,699	2,095,116	2,032,354
Water General and Administrative Expenses	3,592,041	2,701,587	2,499,920
Depreciation, Sewer	2,122,875	2,045,124	1,954,867
Depreciation, Water	1,498,179	1,428,053	1,441,430
Total Operating Expenses	<u>23,282,125</u>	<u>21,190,180</u>	<u>20,062,378</u>
Operating Income (Loss)	(1,606,867)	96,275	665,179
Nonoperating Revenue (Expense):			
Investment and Assessment Income	282,359	1,016,100	845,426
Interest on Long-Term Debt	(28,342)	(27,333)	(47,430)
Private Property Improvements	(18,934)	-	-
Net Gain (Loss) on Disposal of Assets	9,924	24,686	21,857
Total Nonoperating Revenue (Expense)	<u>245,007</u>	<u>1,013,453</u>	<u>819,853</u>
Income Before Capital Contributions	(1,361,860)	1,109,728	1,485,032
Capital Contributions	<u>6,712,294</u>	<u>3,070,045</u>	<u>2,513,002</u>
Increase in Net Position	5,350,434	4,179,773	3,998,034
Net Position - January 1	194,014,203	194,957,805	191,961,369
Restatement - Changes in Accounting Principle	-	(5,123,375)	(1,001,598)
Net Position - January 1, as Restated	<u>194,014,203</u>	<u>189,834,430</u>	<u>190,959,771</u>
Net Position - December 31	<u><u>\$ 199,364,637</u></u>	<u><u>\$ 194,014,203</u></u>	<u><u>\$ 194,957,805</u></u>

\* The 2018 financial statements have not been restated to reflect the change in capitalization threshold for certain previously capitalized capital assets.

**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Effective January 1, 2019, the District changed its policy for the capitalization of meters, meter installations, hydrants, and hydrant installations. Previously, meters and hydrants were capitalized regardless of the cost. After implementation of the new policy, meters and hydrants are capitalized if the individual cost is greater than the capitalization threshold of \$5,000. Hydrant replacements and repairs are expensed as incurred.

The cumulative impact of implementing the new policy resulted in a \$5,123,375 reduction of net position as of January 1, 2019 as a result of removing \$6,591,962 of meters and hydrants and \$1,468,587 of related accumulated depreciation.

**FINANCIAL POSITION**

The District's overall financial position continues to be strong with sufficient liquidity, growing revenues and debt capacity to finance future capital improvements if necessary.

The District is financed primarily by equity and substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2020 due to growth in the District's customer base and system improvements and decreased in 2019 as a result of the change in accounting policy for meters and hydrants.

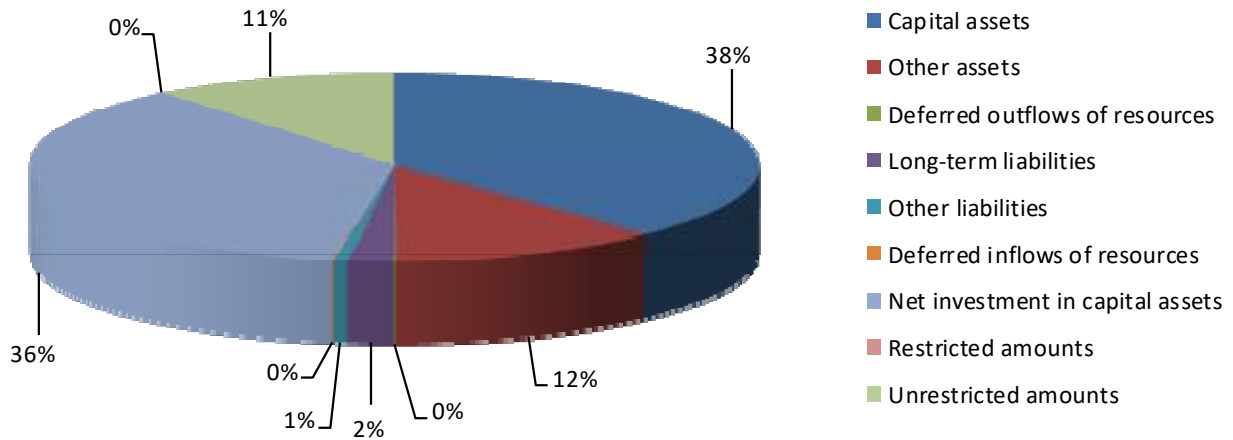
The District is located in a growing area of Snohomish County, Washington.

**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

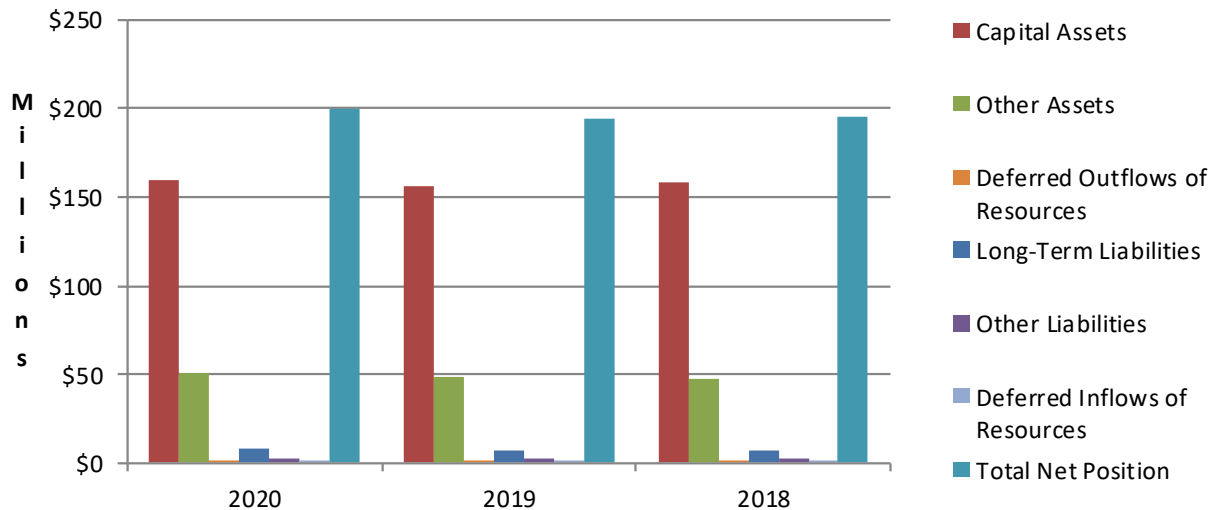
**FINANCIAL POSITION (CONTINUED)**

The following charts indicate the components of financial position:

**2020 STATEMENT OF NET POSITION**



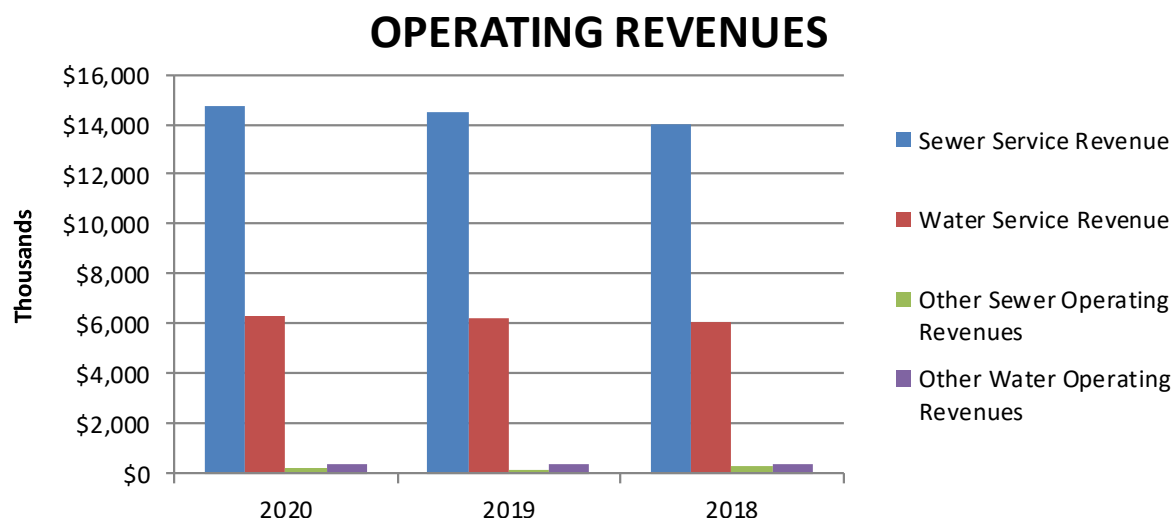
**COMPARATIVE STATEMENT OF NET POSITION**



**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

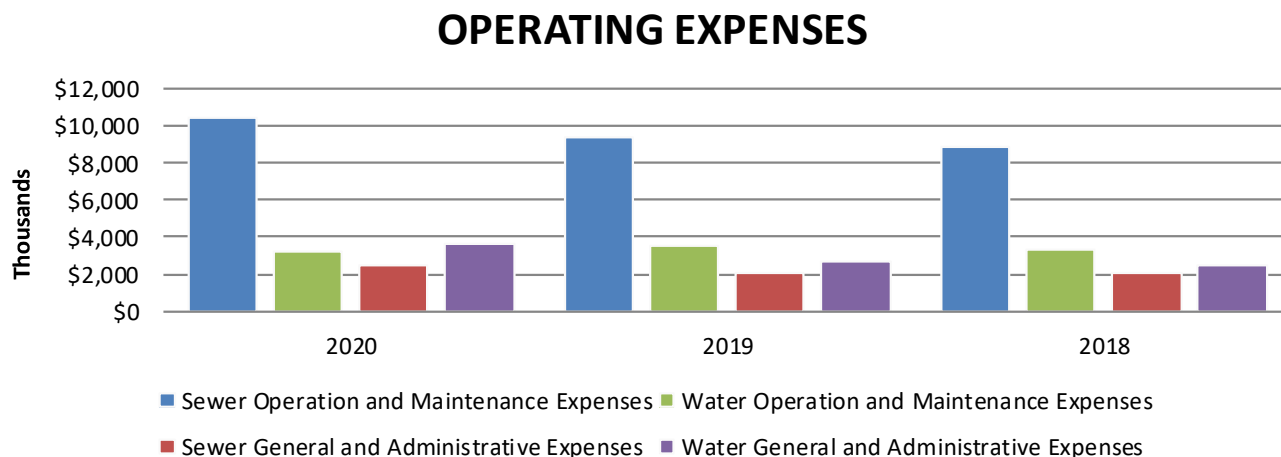
**RESULTS OF OPERATIONS**

Operating revenues are received principally from two sources: water service and sewer service. The following chart indicates operating revenue over the last three years:



The increase in sewer revenue in 2020 and 2019 was due to growth in the customer base and rate increases. Water usage, and corresponding revenues, can vary significantly due to weather conditions. Water revenue in 2020 was consistent with 2019. Water revenue increased in 2019 due to a summer that was hotter and dryer than normal, growth in customer base and rate increases.

The following chart indicates operating expenses over the last three years:



**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

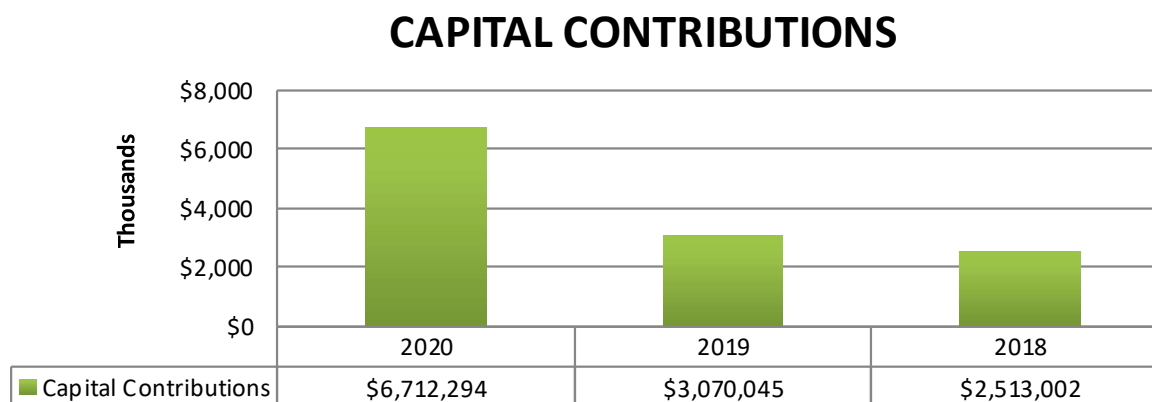
**RESULTS OF OPERATIONS (CONTINUED)**

Sewer operation and maintenance expenses increased in 2020 primarily due to rate increases for sewage treatment, a change in the allocation of personnel costs and the lift station projects, and in 2019 primarily due to rate increases for sewage treatment. Water operation and maintenance expenses decreased in 2020 due to change in allocation of personnel costs and decrease in costs of supplies and increased in 2019 increased primarily due to variation in water purchases as a result of summer weather conditions as discussed above for operating revenue. Sewer and water general and administrative expenses increased in 2020 and 2019 primarily due to increases in personnel costs.

The District operated at a loss in 2020 and at a profit in 2019 and 2018. Operating results are augmented by earnings on investments, capital contributions, and other non-operating revenues, less non-operating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments, and donated systems.

The following chart indicates capital contributions over the last three years:



The contributions are indicative of the growth of the District and include donated systems totaling \$1,985,933, \$2,264,802, and \$1,053,535 for the years ended December 31, 2020, 2019, and 2018, respectively. The growth of the District is increasing due to the effects of the improving overall economy.

**SILVER LAKE WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2020 AND 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**CAPITAL ASSETS AND LONG-TERM DEBT**

Capital assets increased in 2020 due to growth in the District's customer base and system improvements and decreased in 2019 as a result of the change in accounting policy for meters and hydrants. Significant capital asset additions included the following:

<u>2020</u>		<u>2019</u>	
<b>Water System:</b>		<b>Water System:</b>	
Donated Systems	\$ 1,250,818	Donated Systems	\$ 763,366
131st Street Water Main	45,190	Res No. 3 Improvements #16439	560,909
Silver Acres Intertie	53,267	131st Street Water Main	246,984
 <b>Sewer System:</b>		 <b>Sewer System:</b>	
Donated Systems	735,115	Donated Systems	1,501,436
Waldenwood Lift Station	3,653,353	Waldenwood Lift Station	905,890
Windsong Lift Station	36,107	Windsong Lift Station	33,511
Thomas Lake LS Improvements	55,674	#3614-North Chlorine Bldg.	1,208,125
Pioneer Trails LS improvements	101,059		
12th Street NE Dike #3435	57,335		
#3614-North Chlorine Bldg.	129,224		
WPCF Trickling #3742	111,919		
Bio-Solids App Site #3706	101,253		

Long-term liabilities increased in 2020 primarily due to an increase in the OPEB liability and decreased 2019 due to principal payments made by the District in excess of new borrowings and changes in the net pension liability.

See Notes 3, 4, and 5 in the financial statements for detail activity in capital assets and long-term debt.

As of December 31, 2020, the District has \$47,096,157 of unrestricted cash and investments available for operating costs and capital asset acquisition.

The District is committed to pay a portion of certain City of Everett projects. See Note 9 in the financial statements for the District's estimated share of these projects over the next 10 years.

**ADDITIONAL COMMENTS**

The District purchases wholesale water and sewage treatment services from other entities. The District intends to adjust rates to compensate for increases in these direct costs.

**SILVER LAKE WATER AND SEWER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Unrestricted:		
Cash	\$ 5,678,896	\$ 3,856,820
Investments	41,417,261	41,644,049
Accounts Receivable	1,925,078	1,878,541
Unbilled Utility Service Receivable	727,473	722,176
Accounts Receivable, Other	246,522	-
Prepaid Expenses	15,798	25,595
Materials and Supplies	219,010	173,043
Total Current Assets	<u>50,230,038</u>	<u>48,300,224</u>
<b>NONCURRENT ASSETS</b>		
Capital Assets not being Depreciated:		
Land and Land Rights	3,449,020	3,449,020
Construction in Progress	5,408,887	3,122,248
Capital Assets being Depreciated:		
Plant in Service	216,785,958	211,885,397
Less: Accumulated Depreciation	<u>(65,776,233)</u>	<u>(62,204,817)</u>
Net Capital Assets	<u>159,867,632</u>	<u>156,251,848</u>
 Total Noncurrent Assets	 <u>159,867,632</u>	 <u>156,251,848</u>
 Total Assets	 210,097,670	 204,552,072
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows Related to Pensions	353,816	313,418
Deferred Outflows Related to Other Postemployment Benefits	<u>4,170</u>	<u>6,133</u>
Total Deferred Outflows of Resources	<u>357,986</u>	<u>319,551</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>\$ 210,455,656</u></u>	 <u><u>\$ 204,871,623</u></u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,705,268	\$ 2,085,776
Accrued Compensated Absences	309,000	365,442
Deposits	5,695	14,375
Accrued Interest	16,103	14,819
Long-Term Debt, Current Maturities	514,090	449,899
Total Current Liabilities	<u>2,550,156</u>	<u>2,930,311</u>
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Maturities	5,557,146	5,300,945
Compensated Absences	127,693	-
Net Pension Liability	947,423	988,335
Other Postemployment Benefits Liability	1,614,512	1,080,201
Total Noncurrent Liabilities	<u>8,246,774</u>	<u>7,369,481</u>
 Total Liabilities	 10,796,930	 10,299,792
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to Pensions	<u>294,089</u>	<u>557,628</u>
 Total Liabilities and Deferred Inflows of Resources	 11,091,019	 10,857,420
<b>NET POSITION</b>		
Net Investment in Capital Assets	153,485,007	150,208,622
Unrestricted	45,879,630	43,805,581
Total Net Position	<u>199,364,637</u>	<u>194,014,203</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 210,455,656</u>	 <u>\$ 204,871,623</u>

See accompanying Notes to Financial Statements.



**SILVER LAKE WATER AND SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES</b>		
Service Charges	\$ 21,031,476	\$ 20,729,152
Permits	119,134	72,026
Miscellaneous	524,648	485,277
Total Operating Revenues	<u>21,675,258</u>	<u>21,286,455</u>
<b>OPERATING EXPENSES</b>		
Operation Expenses	12,093,975	11,692,273
Maintenance Expenses	1,528,356	1,228,027
General and Administrative	6,038,740	4,796,703
Depreciation	3,621,054	3,473,177
Total Operating Expenses	<u>23,282,125</u>	<u>21,190,180</u>
<b>OPERATING INCOME (LOSS)</b>	(1,606,867)	96,275
<b>NONOPERATING REVENUE</b>		
Investment and Assessment Income	282,359	1,016,100
Interest and Amortization on Long-Term Debt	(28,342)	(27,333)
Private Property Improvements	(18,934)	-
Net Gain on Disposal of Assets	9,924	24,686
Total Nonoperating Revenue	<u>245,007</u>	<u>1,013,453</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	(1,361,860)	1,109,728
Capital Contributions	<u>6,712,294</u>	<u>3,070,045</u>
<b>CHANGE IN NET POSITION</b>	5,350,434	4,179,773
Net Position - January 1, as Originally Reported	194,014,203	194,957,805
Restatement - Change in Accounting Principle	-	(5,123,375)
Net Position - January 1, as Restated	<u>194,014,203</u>	<u>189,834,430</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 199,364,637</u>	<u>\$ 194,014,203</u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers and Other	\$ 21,519,382	\$ 21,444,005
Cash Paid to Vendors	(15,506,964)	(12,942,948)
Cash Paid to and for Employees and Commissioners	(4,385,519)	(4,299,635)
Net Cash Provided by Operating Activities	<u>1,626,899</u>	<u>4,201,422</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributions in Aid of Construction	4,614,671	805,243
Proceeds from Issuance of Long-Term Debt	829,798	556,649
Proceeds from Disposal of Assets	58,150	24,686
Expenditures for Plant in Service and Construction	(5,280,124)	(4,358,251)
Payment on Long-Term Debt	(509,406)	(783,361)
Interest Paid on Long-Term Debt	(27,058)	(28,660)
Net Cash Used by Capital and Related Financing Activities	<u>(313,969)</u>	<u>(3,783,694)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Proceeds (Purchases), Net	226,787	(948,446)
Interest Received on Investments	282,359	1,016,100
Net Cash Provided by Investing Activities	<u>509,146</u>	<u>67,654</u>
<b>NET INCREASE IN CASH</b>	1,822,076	485,382
Cash - Beginning of Year	<u>3,856,820</u>	<u>3,371,438</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 5,678,896</u></u>	<u><u>\$ 3,856,820</u></u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (1,606,867)	\$ 96,275
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	3,621,054	3,473,177
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Receivables	(186,666)	157,550
Materials and Supplies	(45,967)	18,056
Prepaid Expenses	9,797	(18,000)
Deferred Outflows Related to Pensions	(40,398)	(35,394)
Deferred Outflows Related to Other Postemployment Benefits	1,963	(2,005)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	(399,514)	671,049
Accrued Compensated Absences	71,251	(44,289)
Deposits	(8,680)	14,375
Other Postemployment Benefits Liability	534,311	39,742
Net Pension Liability	(40,912)	(253,738)
Deferred Inflows Related to Pensions	(263,539)	84,624
Private Property Improvements	(18,934)	-
Net Cash Provided by Operating Activities	<u>\$ 1,626,899</u>	<u>\$ 4,201,422</u>
<b>SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Utility Plant Donations Received	<u>\$ 1,985,933</u>	<u>\$ 2,264,802</u>
Capital Contributions Receivable	<u>\$ 111,690</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Silver Lake Water and Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining and operating water and sewer systems within its boundaries, which encompass an area in south Snohomish County. The District is governed by an elected three member board and has no component units.

**Basis of Presentation and Accounting**

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

**Newly Implemented Accounting Standards**

The District implemented GASB 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which improves the consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. The implementation of this standard had no impact on the statement of net position or net income and had a minimal impact in the debt related footnotes.

**Changes in Accounting Principle**

Effective January 1, 2019, the District changed its policy for the capitalization of meters, meter installations, hydrants, and hydrant installations. Previously, meters and hydrants were capitalized regardless of the cost. After implementation of the new policy, meters and hydrants are capitalized if the individual cost is greater than the capitalization threshold of \$5,000. Hydrant replacements and repairs are expensed as incurred. This change was made to reduce burdensome efforts and costs of accounting for and tracking thousands of small dollar items that did not meet the capitalization threshold for all other assets. The District believes the annual costs of meter and hydrant replacements will be similar to the depreciation effects of capitalization. As a result, the elimination of the time and costs of tracking these assets is preferable to the District's operations. The effect of the policy change for the year ended December 31, 2019 was a decrease in the change in net position of \$104,636 as a result of a decrease in depreciation expense of \$99,426 and an increase in maintenance expense of \$204,062.

The cumulative impact of implementing the new policy resulted in a \$5,123,375 reduction of net position as of January 1, 2019 as a result of removing \$6,591,962 of meters and hydrants and \$1,468,587 of related accumulated depreciation.

**Investments**

Investments in the State of Washington Treasurer's Investment Pool are stated at share price which is equal to amortized cost.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts are considered fully collectible since nonpayment of an account can result in a lien assessment filed against the property. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

**Materials and Supplies**

Materials and supplies are inventories available for future use and are stated at the lower of cost (FIFO) or net realizable value.

**Capital Assets**

Capital assets are stated at cost. For water and sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's estimated cost. Expenditures for capital assets exceeding \$5,000, including capital leases and major repairs that increase useful lives, are capitalized. Certain assets including motor vehicles and trailers are capitalized regardless of cost. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Water System	10 to 75 Years
Sewer System	30 to 75 Years
Office Building and Improvements	10 to 40 Years
Equipment and Other	3 to 10 Years

**Pensions**

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

**Accrued Compensated Absences**

The District accrues accumulated unpaid vacation and sick leave benefit amounts as earned. District employees accumulate vacation and sick leave hours, subject to certain restrictions, for subsequent use or payment upon termination, retirement, or death.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of contributions to the OPEB plan subsequent to the June 30 measurement date, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. OPEB and pension plan contributions subsequent to the measurement date are recognized as a reduction of the total OPEB liability and net pension liability, respectively, in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

**Net Position**

Net position is classified in the following three components:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

*Unrestricted Net Position* – This component of net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenues and Expenses**

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products and services in connection with the District's water and sewer systems. Operating expenses include the costs associated with providing the District's products and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

**Capital Contributions**

ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

**Use of Estimates in Financial Statement Preparation**

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

Cash on hand at December 31, 2020 and 2019 was \$600 and \$600, respectively. The District's bank balances as of December 31, 2020 and 2019 were \$5,678,896 and \$3,856,220, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits and certificates of deposit are 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).

**Investments**

As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, certificates of deposit with Washington State Banks and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

As of December 31, the District had the following investments, which are measured at amortized cost:

	2020	2019
Local Government Investment Pool	<u>\$ 41,417,261</u>	<u>\$ 41,644,049</u>

**Investments in Local Government Investment Pool**

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

Investment in the LGIP are stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, P.O. Box 40200, Olympia, Washington 98504-0200, or online at [www.tre.wa.gov](http://www.tre.wa.gov).



**SILVER LAKE WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 3 CAPITAL ASSETS**

Major classes of capital assets and capital asset activity was as follows:

	2020			Balance - End of Year
	Balance - Beginning of Year	Increases	Decreases	
Capital Assets not being Depreciated:				
Land and Land Rights	\$ 3,449,020	\$ -	\$ -	\$ 3,449,020
Construction in Progress	3,122,248	4,408,632	(2,121,993)	5,408,887
	<u>6,571,268</u>	<u>4,408,632</u>	<u>(2,121,993)</u>	<u>8,857,907</u>
Capital Assets being Depreciated:				
Water System	80,726,359	1,262,937	(30,433)	81,958,863
Sewer System	106,082,539	2,814,802	-	108,897,341
Office Building and Improvements	20,152,608	25,181	(8,762)	20,169,027
Equipment and Other	4,923,891	927,936	(91,100)	5,760,727
	<u>211,885,397</u>	<u>5,030,856</u>	<u>(130,295)</u>	<u>216,785,958</u>
Accumulated Depreciation:				
Water System	(19,624,786)	(1,036,734)	610	(20,660,910)
Sewer System	(33,596,458)	(1,680,991)	-	(35,277,449)
Office Building and Improvements	(5,850,943)	(570,821)	3,038	(6,418,726)
Equipment and Other	(3,132,630)	(332,508)	45,990	(3,419,148)
	<u>(62,204,817)</u>	<u>(3,621,054)</u>	<u>49,638</u>	<u>(65,776,233)</u>
Net Capital Assets	<u>\$ 156,251,848</u>	<u>\$ 5,818,434</u>	<u>\$ (2,202,650)</u>	<u>\$ 159,867,632</u>
	2019			Balance - End of Year
	Balance - Beginning of Year	Increases	* Decreases	
Capital Assets not being Depreciated:				
Land and Land Rights	\$ 3,449,020	\$ -	\$ -	\$ 3,449,020
Construction in Progress	3,783,879	2,999,433	(3,661,064)	3,122,248
	<u>7,232,899</u>	<u>2,999,433</u>	<u>(3,661,064)</u>	<u>6,571,268</u>
Capital Assets being Depreciated:				
Water System	82,952,674	4,365,647	(6,591,962)	80,726,359
Sewer System	104,499,840	1,582,699	-	106,082,539
Office Building and Improvements	20,141,297	11,311	-	20,152,608
Equipment and Other	3,990,395	998,757	(65,261)	4,923,891
	<u>211,584,206</u>	<u>6,958,414</u>	<u>(6,657,223)</u>	<u>211,885,397</u>
Accumulated Depreciation:				
Water System	(20,094,157)	(999,214)	1,468,585	(19,624,786)
Sewer System	(31,952,508)	(1,643,950)	-	(33,596,458)
Office Building and Improvements	(5,280,548)	(570,395)	-	(5,850,943)
Equipment and Other	(2,938,273)	(259,618)	65,261	(3,132,630)
	<u>(60,265,486)</u>	<u>(3,473,177)</u>	<u>1,533,846</u>	<u>(62,204,817)</u>
Net Capital Assets	<u>\$ 158,551,619</u>	<u>\$ 6,484,670</u>	<u>\$ (8,784,441)</u>	<u>\$ 156,251,848</u>

\* Includes restatement for change in capitalization threshold for certain previously capitalized capital assets.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 4 LONG-TERM DEBT**

Long-term debt outstanding consisted of direct borrowings as follows:

<u>Description</u>	<u>2020</u>	<u>2019</u>
2012 \$1,859,000 loan issued for utility construction, secured by the revenue of the system, payable \$97,842 annually through the year 2031, plus interest at .25 annual percentage rate.	\$ 1,076,264	\$ 1,174,106
2013 loan issued for utility construction: \$7,810,000 authorized, \$6,844,852 drawn to December 31, 2020 secured by the revenue of the system. Based on draws to December 31, 2020, payable \$416,248 annually through the year 2032, plus interest at .50 annual percentage rate.	4,994,972	4,576,738
	6,071,236	5,750,844
Less: Current Maturities	(514,090)	(449,899)
Total	<u>\$ 5,557,146</u>	<u>\$ 5,300,945</u>

Long-term debt service requirements to maturity are as follows (based on draws received through December 31, 2020):

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 514,090	\$ 27,625	\$ 541,715
2022	514,090	25,340	539,430
2023	514,090	23,014	537,104
2024	514,090	20,688	534,778
2025	514,090	18,362	532,452
2026-2030	2,570,449	56,923	2,627,372
2031-2032	930,337	6,488	936,825
Total	<u>\$ 6,071,236</u>	<u>\$ 178,440</u>	<u>\$ 6,249,676</u>

**SILVER LAKE WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 5 CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2020</u>					
Public Works Trust Fund Loans	\$ 5,750,844	\$ 829,798	\$ (509,406)	\$ 6,071,236	\$ 514,090
Compensated Absences	365,442	394,274	(323,023)	436,693	309,000
Net Pension Liability	988,335	-	(40,912)	947,423	-
Other Postemployment Benefits Liability	1,080,201	541,519	(7,208)	1,614,512	-
Total	<u>\$ 8,184,822</u>	<u>\$ 1,765,591</u>	<u>\$ (880,549)</u>	<u>\$ 9,069,864</u>	<u>\$ 823,090</u>
<u>2019</u>					
Public Works Trust Fund Loans	\$ 5,977,557	\$ 556,648	\$ (783,361)	\$ 5,750,844	\$ 449,899
Compensated Absences	409,731	354,131	(398,420)	365,442	365,442
Net Pension Liability	1,242,073	-	(253,738)	988,335	-
Other Postemployment Benefits Liability	1,040,459	101,371	(61,629)	1,080,201	-
Total	<u>\$ 8,669,820</u>	<u>\$ 1,012,150</u>	<u>\$ (1,497,148)</u>	<u>\$ 8,184,822</u>	<u>\$ 815,341</u>

**NOTE 6 PENSION PLAN**

The following table represents the aggregate pension amounts for all plans as of and for the years ended December 31, 2020 and 2019:

	2020	2019
Pension Liabilities	\$ 947,423	\$ 988,335
Deferred Outflows of Resources	353,816	313,418
Deferred Inflows of Resources	294,089	557,628
Pension Expense	28,871	150,789

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**State Sponsored Pension Plans**

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

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98540-8380

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

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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 5 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 nonduty 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 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (Continued)**

**Contributions** The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. 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) were as follows:

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2020</u>		
January through August		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	<u>12.86 %</u>	<u>6.00 %</u>
September through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	<u>12.97 %</u>	<u>6.00 %</u>
<u>2019</u>		
January through June		
PERS Plan 1	7.52 %	6.00 %
PERS Plan 1 UAAL	5.13	
Administrative Fee	0.18	
Total	<u>12.83 %</u>	<u>6.00 %</u>
July through December		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.76	
Administrative Fee	0.18	
Total	<u>12.86 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$138,997 and \$136,963 for the years ended December 31, 2020 and 2019, respectively.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (Continued)**

**PERS Plan 2/3** - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 5 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 3% 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 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Public Employees Retirement System (PERS) (Continued)**

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

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<b><u>2020</u></b>			
January through August			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	<u>Varies</u>
September through December			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87		
Administrative Fee	0.18		
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>
<b><u>2019</u></b>			
January through June			
PERS Plan 2/3	7.52 %	7.41 %	Varies
PERS Plan 1 UAAL	5.13		
Administrative Fee	0.18		
Total	<u>12.83 %</u>	<u>7.41 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.76		
Administrative Fee	0.18		
Total	<u>12.86 %</u>	<u>7.90 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$229,507 and \$213,354 for the years ended December 31, 2020 and 2019, respectively.

**Actuarial Assumptions**

The 2020 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, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

The 2019 TPL for each of the DRS plans was determined using the actuarial valuation completed in 2019, with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Additional 2020 assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. Additional 2019 assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020 and June 30, 2019. 2020 Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, and 2019 Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

2020 Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

2019 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% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were changes in methods and assumptions between the 2020 and 2019 valuations.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.



**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington State average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

There were changes in methods and assumptions between the 2019 and 2018 valuations.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

**Discount Rate**

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

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

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**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, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

As of June 30, 2020 and 2019:

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

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the applicable discount rate, 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 or 1-percentage point higher than applicable discount rate.

	<u>1% Decrease (6.4%)</u>	<u>Current Discount Rate (7.4%)</u>	<u>1% Increase (8.4%)</u>
<u>2020</u>			
PERS 1	\$ 805,380	\$ 642,988	\$ 501,367
PERS 2/3	1,894,283	304,435	(1,004,803)
<u>2019</u>			
PERS 1	\$ 933,445	\$ 745,373	\$ 582,197
PERS 2/3	1,863,443	242,962	(1,086,739)

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**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 December 31, 2020 and 2019, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2020 and 2019):

	Liability (Asset)	
	2020	2019
PERS 1	\$ 642,988	\$ 745,373
PERS 2/3	304,435	242,962
Total	<u>\$ 947,423</u>	<u>\$ 988,335</u>

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.019384%	0.018212%	-0.001172%
PERS 2/3	0.025013%	0.023804%	-0.001209%

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.018634%	0.019384%	0.000750%
PERS 2/3	0.024006%	0.025013%	0.001007%

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

The 2020 and 2019 collective net pension liability (asset) was measured as of June 30, 2020 and 2019, respectively, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019 and 2018, respectively, with update procedures used to roll forward the total pension liability to the measurement date.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Pension Expense**

For the years ended December 31, 2020 and 2019, the District recognized pension expense as follows:

	2020	2019
PERS 1	\$ (16,610)	\$ 68,893
PERS 2/3	40,265	76,917
Expenses and Other	5,216	4,979
Total	<u>\$ 28,871</u>	<u>\$ 150,789</u>

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b><u>2020</u></b>		
PERS 1		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	3,580
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	72,219	-
Total	<u>\$ 72,219</u>	<u>\$ 3,580</u>
PERS 2/3		
Differences Between Expected and Actual Experience	\$ 108,984	\$ 38,153
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	15,461
Changes of Assumptions	4,336	207,956
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	49,879	28,939
Contributions Subsequent to the Measurement Date	118,398	-
Total	<u>\$ 281,597</u>	<u>\$ 290,509</u>
Total All Plans	<u>\$ 353,816</u>	<u>\$ 294,089</u>

**SILVER LAKE WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 6 PENSION PLAN (CONTINUED)**

**Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2019</u>		
PERS 1		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	49,797
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	65,214	-
Total	<u>\$ 65,214</u>	<u>\$ 49,797</u>
PERS 2/3		
Differences Between Expected and Actual Experience	\$ 69,609	\$ 52,236
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	353,656
Changes of Assumptions	6,222	101,939
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	64,195	-
Contributions Subsequent to the Measurement Date	108,178	-
Total	<u>\$ 248,204</u>	<u>\$ 507,831</u>
Total All Plans	<u>\$ 313,418</u>	<u>\$ 557,628</u>

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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2021	\$ (16,246)	\$ (119,179)
2022	(511)	(23,051)
2023	4,957	12,555
2024	8,220	31,624
2025	-	(10,474)
Thereafter	-	(18,785)
Total	<u>\$ (3,580)</u>	<u>\$ (127,310)</u>

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS**

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

	2020	2019
OPEB Liabilities	\$ 1,614,512	\$ 1,080,201
Deferred Outflows of Resources	4,170	6,133
OPEB Expense	541,519	52,453

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

**General Information about the OPEB Plan**

**Plan Description** - The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents as a single employer plan. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

**Benefits Provided** - The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date of June 30, 2020, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50% of the monthly premiums. As of the valuation date of June 30, 2019, \$168 or 50% of the monthly premiums. The retirees and spouses currently pay the premium minus \$183 when the premium is over \$366 per month and pay half the premium when the premium is lower than \$366.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Employees Covered by Benefit Terms**

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

	<u>2020</u>	<u>2019</u>
Inactive Employees or Beneficiaries Currently		
Receiving Benefit Payments	3	2
Inactive Employees Entitled to But Not Yet		
Receiving Benefit Payments	-	1
Active Employees	32	31

**Funding Policy**

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

**Contributions**

The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

**Total OPEB Liability**

The District's total OPEB liability was measured as of June 30, 2020 and 2019, and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability (Continued)**

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

Methodology:

Actuarial Cost Method  
Amortization Method

Entry Age  
Recognized Immediately

Assumptions:

Discount Rate - Based on Bond Buyer General  
Obligation 20-Bond Municipal Index:

	<u>2020</u>	<u>2019</u>
Beginning of Measurement Year	3.50%	3.87%
End of Measurement Year	2.21%	3.50%
Projected Salary Changes	<u>2020</u> 3.50%	<u>2019</u> 3.50%
	Plus Service-Based Increases	

Healthcare Trend Rates

Initial Rate is Approximately 7%,  
trends down to approximately 5% in  
2020

Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.

Mortality Rates:

Base Mortality Table  
Age Setback  
Mortality Improvements  
Projection Period

Healthy RP-2000  
1 year  
100% Scall BB  
Generational

	<u>2020</u>	<u>2019</u>
Inflation Rate	2.75%	2.75%
Post-Retirement Participation Percentage	65.00%	
Percentage with Spouse Coverage	45.00%	



**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Changes in the Total OPEB Liability**

	2020	2019
Balance - January 1	\$ 1,080,201	\$ 1,040,459
Service Cost	59,483	59,063
Interest	39,764	42,308
Changes in Experience and Data Assumptions	442,272	(48,917)
Changes in Benefit Terms	-	-
Benefit Payments	(7,208)	(12,712)
Other	-	-
Total	<u>\$ 1,614,512</u>	<u>\$ 1,080,201</u>

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate**

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

<u>2020</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 1,994,686	\$ 1,614,512	\$ 1,320,745
Healthcare Cost Trend Rate	1,275,195	1,614,512	2,073,498
 <u>2019</u>	 <u>1% Decrease</u>	 <u>Current Rate</u>	 <u>1% Increase</u>
Discount Rate	\$ 1,315,530	\$ 1,080,201	\$ 896,524
Healthcare Cost Trend Rate	869,506	1,080,201	1,361,254

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

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

	2020	2020
Service Cost	\$ 59,483	\$ 59,063
Interest Cost	39,764	42,308
Changes in Experience and Data Assumptions	442,272	(48,918)
Total	<u>\$ 541,519</u>	<u>\$ 52,453</u>

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2020</u>		
Contributions Subsequent to the Measurement Date	\$ 4,170	\$ -
<u>2019</u>		
Contributions Subsequent to the Measurement Date	\$ 6,133	\$ -

Deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

**NOTE 8 DEFERRED COMPENSATION**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the state of Washington. The Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Effective January 1, 2020, the District will match employee contributions up to \$250 per month for fulltime employees and \$125 for part time employees. District and employee contributions during 2020 were \$86,950 and \$173,600, respectively. The District made no contributions to the plan in 2019.

**NOTE 9 COMMITMENTS**

The District is obligated to the City of Everett to pay for a portion of certain city projects. The District does not record a liability and related asset for city project billings until billing has been received. As of December 31, 2020, the District's share of the projects is estimated to be as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 656,000
2022	632,000
2023	768,000
2024	752,000
2025	820,800
2026-2030	19,096,000
Total	<u>\$ 22,724,800</u>

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 10 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 sublimits. 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 sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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.

**SILVER LAKE WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

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.

In the past three years (2020, 2019, and 2018), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**NOTE 11 MAJOR SUPPLIERS**

All sewage collected by the District is treated by the City of Everett and the Department of Natural Resources / King County, Washington.

Water purchased by the District is supplied by the City of Everett, the Clearview Water Supply Agency and Alderwood Water and Wastewater District. In 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency.

**NOTE 12 CLEARVIEW WATER SUPPLY AGENCY JOINT VENTURE**

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). CWSA is a municipal corporation formed by Alderwood Water and Sewer District, Silver Lake Water and Sewer District and Cross Valley Water District. A three member board with each member district providing a representative governs CWSA. The purposes of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. Alderwood Water and Sewer District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

CWSA purchases all of its water from Alderwood Water and Sewer District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses. Annual financial statements are available by contacting the Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

District transactions with CWSA consisted of water purchases, maintenance costs and reimbursement of construction costs expended by CWSA. Water purchases and maintenance costs were \$1,653,611 and \$1,683,863 and reimbursable construction costs were \$-0- and \$20,168 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019 accounts payable included \$232,247 and \$214,164, respectively, due to CWSA.

**SILVER LAKE WATER AND SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**

**NOTE 13 LEASES**

The District leases space for cell towers on certain reservoirs under noncancelable provisions of operating leases. Future rental income due to the District under the noncancelable portion of the leases is as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 171,232
2022	117,047
2023	98,523
2024	25,862
Total	<u>\$ 412,664</u>

**NOTE 14 COVID-19-PANDEMIC**

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 known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities. The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SILVER LAKE WATER AND SEWER DISTRICT**  
**SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**YEARS ENDED JUNE 30 (MEASUREMENT DATE)**  
**LAST TEN FISCAL YEARS\***  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	2020	2019	2018
<b>Total OPEB Liability - Beginning</b>	\$ 1,080,201	\$ 1,040,459	\$ 1,001,598
Service Cost	59,483	59,063	70,464
Interest	39,764	42,308	38,315
Changes in Experience and Data Assumptions	442,272	(48,917)	(66,274)
Changes in Benefit Terms	-	-	-
Benefit Payments	(7,208)	(12,712)	(3,644)
Other Changes	-	-	-
<b>Total OPEB Liability - Ending</b>	<u>\$ 1,614,512</u>	<u>\$ 1,080,201</u>	<u>\$ 1,040,459</u>
<b>Covered Payroll</b>	\$ 2,920,614	\$ 2,675,411	\$ 2,469,473
<b>Total OPEB Liability as a % of Covered Payroll</b>	55.28%	40.38%	42.13%

**Notes to Schedule:**

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

\* Until a full 10-year trend is compiled, only information for those years available is presented.

**SILVER LAKE WATER AND SEWER DISTRICT**  
**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**YEARS ENDED JUNE 30 (MEASUREMENT DATE)**  
**LAST TEN FISCAL YEARS\***  
**(SEE INDEPENDENT AUDITORS' REPORT)**

**PERS 1**

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2020	0.018212%	\$ 642,988	\$ 2,770,419	23.21%	68.64%
2019	0.019384%	745,373	2,718,524	27.42%	67.12%
2018	0.018634%	832,194	2,477,600	33.59%	63.22%
2017	0.019119%	907,191	2,346,535	38.66%	61.24%
2016	0.019197%	1,030,986	2,183,206	47.22%	57.03%
2015	0.018057%	944,542	1,973,556	47.86%	59.10%
2014	0.018145%	914,085	1,766,750	51.74%	61.19%
2013	0.016958%	990,906	1,607,293	61.65%	

**Notes to Schedule:**

\* Information is presented only for those years for which information is available.

**PERS 2/3**

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2020	0.023804%	\$ 304,435	\$ 2,770,419	10.99%	97.22%
2019	0.025013%	242,962	2,718,524	8.94%	97.77%
2018	0.024006%	409,879	2,477,600	16.54%	95.77%
2017	0.023431%	814,124	2,297,204	35.44%	90.97%
2016	0.022660%	1,140,933	2,104,205	54.22%	85.82%
2015	0.021377%	763,802	1,896,648	40.27%	89.20%
2014	0.021249%	429,524	1,691,204	25.40%	93.29%
2013	0.019936%	851,252	1,533,832	55.50%	

**Notes to Schedule:**

\* Information is presented only for those years for which information is available.



**SILVER LAKE WATER AND SEWER DISTRICT  
SCHEDULES OF EMPLOYER PENSION CONTRIBUTIONS  
YEARS ENDED DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST TEN FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

**PERS 1**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2020	\$ 138,997	\$ (138,997)	\$ -	\$ 2,897,816	4.80%
2019	136,963	(136,963)	-	2,766,141	4.95%
2018	132,137	(132,137)	-	2,610,095	5.06%
2017	138,249	(138,249)	-	2,376,391	5.82%
2016	114,244	(114,244)	-	2,278,428	5.01%
2015	96,339	(96,339)	-	2,098,914	4.59%
2014	77,826	(77,826)	-	1,834,833	4.24%
2013	59,441	(59,441)	-	1,744,386	3.41%

**Notes to Schedule:**

1. Plan 1 contributions in 2017 include \$21,878 for excess compensation.

\* Information is presented only for those years for which information is available.

**PERS 2/3**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2020	\$ 229,507	\$ (229,507)	\$ -	\$ 2,897,816	7.92%
2019	213,354	(213,354)	-	2,766,141	7.71%
2018	195,751	(195,751)	-	2,610,095	7.50%
2017	162,671	(162,671)	-	2,376,391	6.85%
2016	136,384	(136,384)	-	2,189,149	6.23%
2015	113,652	(113,652)	-	2,020,837	5.62%
2014	87,859	(87,859)	-	1,759,065	4.99%
2013	80,741	(80,741)	-	1,669,683	4.84%

**Notes to Schedule:**

\* Information is presented only for those years for which information is available.

## **SUPPLEMENTARY INFORMATION**

**SILVER LAKE WATER AND SEWER DISTRICT**  
**DEPARTMENTAL STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Sewer		Percentage of Sewer Operating Revenue		Water		Percentage of Water Operating Revenue		Total		Percentage of Total Revenue	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>OPERATING REVENUES</b>												
Service Charges	\$ 14,751,349	\$ 14,511,733	98.5 %	98.8 %	\$ 6,280,127	\$ 6,217,419	93.7 %	94.2 %	\$ 21,031,476	\$ 20,729,152	97.0 %	97.4 %
Permits	76,464	43,296	0.5	0.3	42,670	28,730	0.6	0.4	119,134	72,026	0.6	0.3
Miscellaneous	146,336	128,849	1.0	0.9	378,312	356,428	5.7	5.4	524,648	485,277	2.4	2.3
	<u>14,974,149</u>	<u>14,683,878</u>	<u>100.0</u>	<u>100.0</u>	<u>6,701,109</u>	<u>6,602,577</u>	<u>100.0</u>	<u>100.0</u>	<u>21,675,256</u>	<u>21,286,455</u>	<u>100.0</u>	<u>100.0</u>
<b>OPERATING EXPENSES</b>												
Operation Expenses	9,494,614	8,936,670	63.4	60.9	2,599,361	2,755,603	38.8	41.7	12,093,975	11,692,273	55.8	54.9
Maintenance Expenses	938,564	414,149	6.3	2.8	589,792	813,878	8.8	12.3	1,528,356	1,228,027	7.1	5.8
General and Administrative	2,446,699	2,095,116	16.3	14.3	3,592,041	2,701,587	53.6	40.9	6,038,740	4,796,703	27.9	22.5
Depreciation	2,122,875	2,045,124	14.2	13.9	1,498,179	1,428,053	22.4	21.6	3,621,054	3,473,177	16.7	16.3
	<u>15,002,752</u>	<u>13,491,059</u>	<u>100.2</u>	<u>91.9</u>	<u>8,279,373</u>	<u>7,699,121</u>	<u>123.6</u>	<u>116.6</u>	<u>23,282,125</u>	<u>21,190,180</u>	<u>107.4</u>	<u>99.6</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(28,603)</u>	<u>1,192,819</u>	<u>(0.2)</u>	<u>8.1</u>	<u>(1,578,264)</u>	<u>(1,096,544)</u>	<u>(23.6)</u>	<u>(16.6)</u>	<u>(1,606,867)</u>	<u>96,275</u>	<u>(7.4)</u>	<u>0.5</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>												
Investment and Assessment Income	243,643	862,073	1.6	5.9	38,716	154,027	0.6	2.3	282,359	1,016,100	1.3	4.8
Interest on Long-Term Debt	(28,342)	(25,601)	(0.2)	(0.2)	-	(1,732)	-	(0.0)	(28,342)	(27,333)	(0.1)	(0.1)
Private Property Improvements	(18,934)	-	(0.1)	-	-	-	-	-	(18,934)	-	(0.1)	-
Net Gain (Loss) on Disposal of Assets	4,767	11,615	0.0	0.1	5,157	13,071	0.1	0.2	9,924	24,686	0.1	0.1
	<u>201,134</u>	<u>848,087</u>	<u>1.3</u>	<u>5.8</u>	<u>43,873</u>	<u>165,366</u>	<u>0.7</u>	<u>2.5</u>	<u>245,007</u>	<u>1,013,453</u>	<u>1.1</u>	<u>4.8</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<u>172,531</u>	<u>2,040,906</u>	<u>1.2</u>	<u>13.9</u>	<u>(1,534,391)</u>	<u>(931,178)</u>	<u>(22.9)</u>	<u>(14.1)</u>	<u>(1,361,860)</u>	<u>1,109,728</u>	<u>(6.3)</u>	<u>5.2</u>
Capital Contributions	3,537,077	1,916,695	23.6	13.1	3,175,217	1,153,350	47.4	17.5	6,712,294	3,070,045	31.0	14.4
<b>CHANGE IN NET POSITION</b>	<u>\$ 3,709,608</u>	<u>\$ 3,957,601</u>	<u>24.8 %</u>	<u>27.0 %</u>	<u>\$ 1,640,826</u>	<u>\$ 222,172</u>	<u>24.5 %</u>	<u>3.4 %</u>	<u>5,350,434</u>	<u>4,179,773</u>	<u>24.7 %</u>	<u>19.6 %</u>
Net Position - Beginning of Year									194,014,203	194,957,805		
Restatement - Change in Accounting Principle									-	(5,123,375)		
Net Position - January 1, as Restated									<u>194,014,203</u>	<u>189,834,430</u>		
Net Position - End of Year									<u>\$ 199,364,637</u>	<u>\$ 194,014,203</u>		

**SILVER LAKE WATER AND SEWER DISTRICT**  
**DEPARTMENTAL SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Sewer		Percentage of Sewer Operating Revenue		Water		Percentage of Water Operating Revenue		Total		Percentage of Total Revenue	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Salaries	\$ 984,974	\$ 993,317	6.6 %	6.8 %	\$ 1,658,571	\$ 1,104,749	24.8 %	16.7 %	\$ 2,643,545	\$ 2,098,066	12.2 %	9.9 %
Employee Benefits and Payroll Taxes	813,123	582,317	5.4	4.0	904,417	656,657	13.5	10.0	1,717,540	1,238,974	7.9	5.8
Insurance and Bonding	61,259	54,907	0.4	0.4	69,080	61,917	1.0	0.9	130,339	116,824	0.6	0.6
Miscellaneous	26,568	41,211	0.2	0.3	65,061	107,948	1.0	1.6	91,629	149,159	0.4	0.7
General Office Expense	233,657	191,750	1.6	1.3	406,539	388,780	6.1	5.6	640,196	560,530	3.0	2.6
Professional Fees	142,096	76,901	1.0	0.5	151,343	82,115	2.3	1.2	293,439	159,016	1.4	0.8
State Excise Tax	185,022	154,713	1.2	1.1	337,030	319,421	5.0	4.8	522,052	474,134	2.4	2.2
Total	\$ 2,446,699	\$ 2,095,116	16.3 %	14.3 %	\$ 3,592,041	\$ 2,701,587	53.6 %	40.9 %	\$ 6,038,740	\$ 4,796,703	27.9 %	22.5 %



**INDEPENDENT AUDITORS' 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**

Board of Commissioners  
Silver Lake Water and Sewer District  
Bothell, 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 Silver Lake Water and Sewer District (the 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 February 10, 2022.

***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 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 in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***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 the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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 result 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Bellevue, Washington  
February 10, 2022



**INDEPENDENT AUDITORS' 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**

Board of Commissioners  
Silver Lake Water and Sewer District  
Bothell, 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 Silver Lake Water and Sewer District (the District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2022.

***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.

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

**CliftonLarsonAllen LLP**

Bellevue, Washington  
February 10, 2022



