



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

April 18, 2024

Board of Commissioners
Midway Sewer District
Kent, 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 Midway 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

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MIDWAY SEWER DISTRICT

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2020 AND 2019

**MIDWAY SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Midway Sewer District
Kent, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Midway 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 auditor's 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 respective net position of Midway Sewer District as of December 31, 2020 and 2019, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 required 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 audits 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 the Midway Sewer District's basic financial statements. The additional 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2021, on our consideration of Midway 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 that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Midway 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
December 16, 2021

**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

INTRODUCTION

Midway Sewer District was organized in 1946 to provide sewer services to customers residing within the District boundaries. Our mission is to provide quality customer service and protect public health with cost effective, reliable, environmentally responsible wastewater collection and treatment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our audit 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 fund 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 fund 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, financing, and investing activities over the course of the years. These statements present information regarding where cash came from and what it was used for.

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

**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Capital Assets	\$ 60,492,890	\$ 55,986,462	\$ 54,175,149
Other Assets	<u>42,029,906</u>	<u>40,298,969</u>	<u>37,085,948</u>
Total Assets	102,522,796	96,285,431	91,261,097
Deferred Outflows of Resources	<u>276,848</u>	<u>249,814</u>	<u>227,226</u>
Long-Term Liabilities	3,685,359	3,401,012	3,927,589
Other Liabilities	<u>2,508,674</u>	<u>1,035,525</u>	<u>921,582</u>
Total Liabilities	6,194,033	4,436,537	4,849,171
Deferred Inflows of Resources	<u>277,477</u>	<u>492,667</u>	<u>434,020</u>
Net Investment in Capital Assets	57,553,778	54,442,379	52,627,526
Restricted for Impaired Investments	8,100	10,819	14,249
Unrestricted Amounts	<u>38,766,256</u>	<u>37,152,843</u>	<u>33,563,357</u>
Total Net Position	<u><u>\$ 96,328,134</u></u>	<u><u>\$ 91,606,041</u></u>	<u><u>\$ 86,205,132</u></u>

**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

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

	2020	2019	2018
Sewer Service Charges	\$ 9,067,071	\$ 9,172,718	\$ 9,115,191
Other Operating Revenue	382,409	375,077	331,169
Total Operating Revenues	9,449,480	9,547,795	9,446,360
Operating Costs	2,988,185	2,785,511	3,013,989
General and Administrative Expenses	3,009,937	2,709,555	2,891,653
Depreciation and Amortization	2,529,127	2,368,488	2,317,366
Total Operating Expenses	8,527,249	7,863,554	8,223,008
Operating Income	922,231	1,684,241	1,223,352
Nonoperating Revenues (Expenses):			
Interest	707,842	1,132,849	605,477
Net Gain (Loss) on Disposal of Assets	5,116	(38,637)	951
Other	35,025	101,691	126,436
Interest on Long-Term Debt	(5,653)	(6,318)	(7,386)
Total Nonoperating Revenues (Expenses)	742,330	1,189,585	725,478
Income Before Capital Contributions	1,664,561	2,873,826	1,948,830
Capital Contributions	3,057,532	2,527,083	2,352,316
Increase in Net Position	4,722,093	5,400,909	4,301,146
Net Position - January 1, as Originally Reported	91,606,041	86,205,132	82,553,488
Restatement - Change in Accounting Principle	-	-	(649,503)
Net Position - January 1, as Restated	91,606,041	86,205,132	81,903,985
Net Position - December 31	\$ 96,328,134	\$ 91,606,041	\$ 86,205,131

Effective January 1, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB 75 establishes new accounting and financial reporting requirements for OPEB plans, establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense.

The cumulative impact of implementation of GASB 75 resulted in a \$649,503 reduction of net position as of January 1, 2018 as a result of recognizing the additional OPEB liability required under GASB 75.

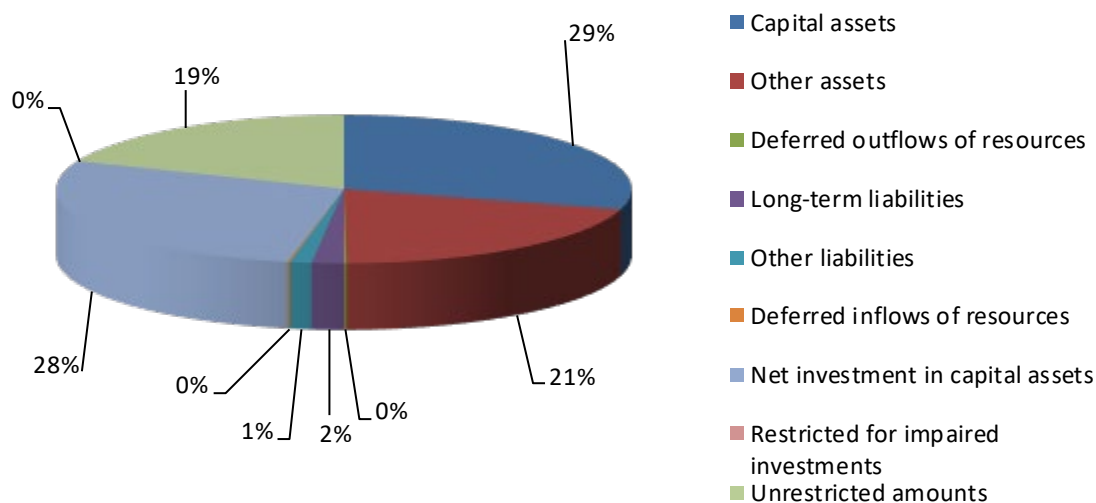
**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

FINANCIAL POSITION

The District's overall financial position continues to be strong. The District is financed primarily by equity. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2020 and 2019 due to increased construction activity and donated systems.

The following charts indicate the components of financial position.

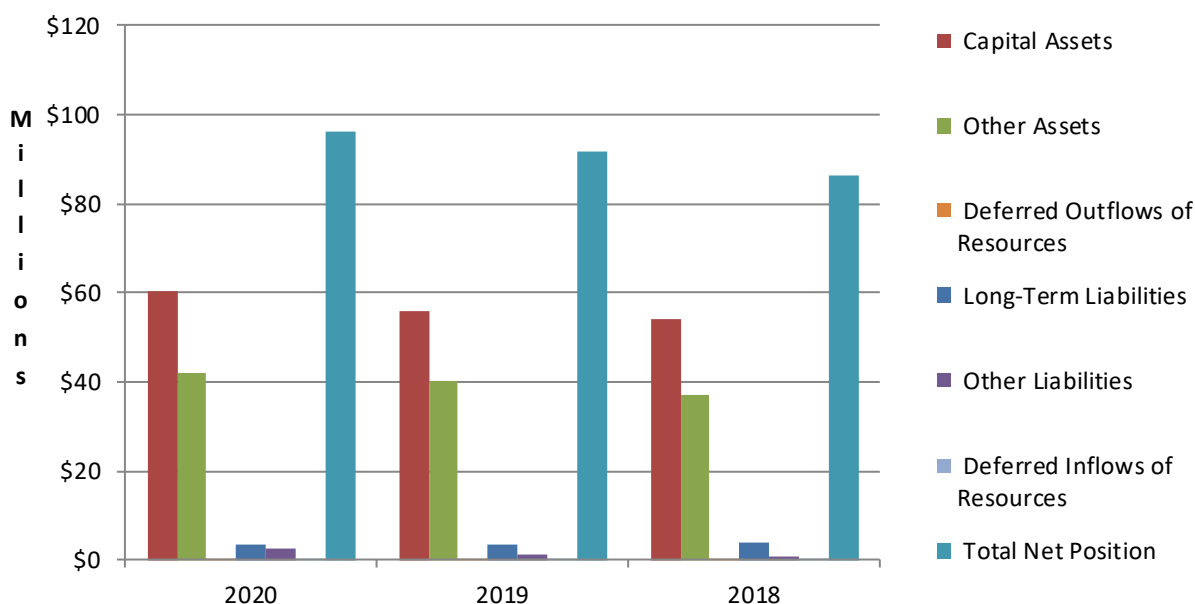
2020 STATEMENT OF NET POSITION



**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

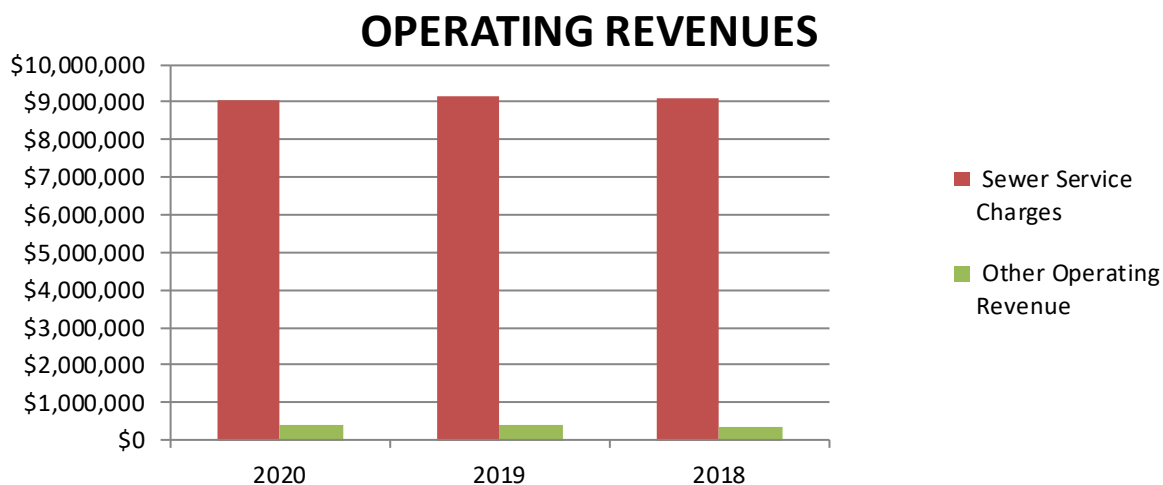
FINANCIAL POSITION (CONTINUED)

COMPARATIVE STATEMENT OF NET POSITION



RESULTS OF OPERATIONS

Operating revenues are received primarily from sewer service charges. The following chart indicates operating revenue over the last three years.

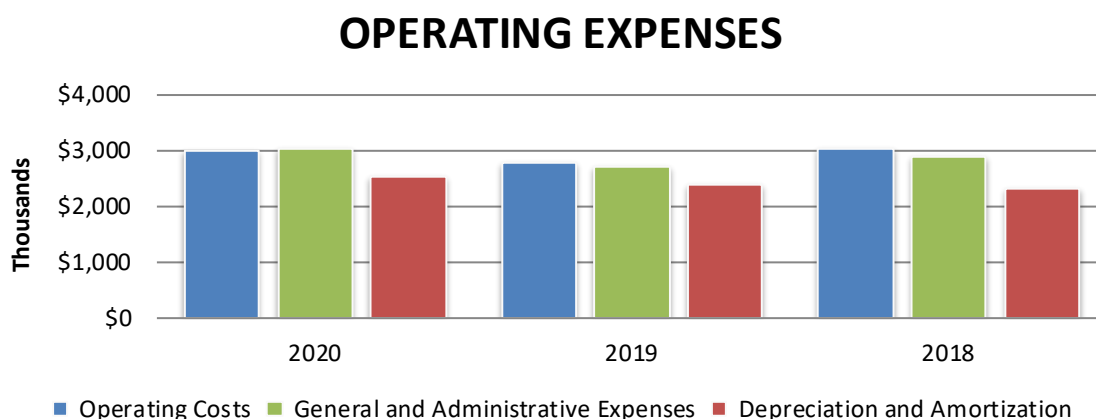


**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

RESULTS OF OPERATIONS (CONTINUED)

The decrease in operating revenue in 2020 was due to decreased consumption from the Port of Seattle as a result of Covid-19. The increase in operating revenue in 2019 was primarily due to a rate increase effective January 1, 2019.

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



The District's operating costs increased in 2020 primarily due to increases in personnel costs and increased supplies purchases for the treatment plant. The District's operating costs decreased in 2019 primarily due to decreased maintenance of sewer lines and the treatment plant. General and administrative expenses increased in 2020 primarily due to increased OPEB costs as a result of changes in assumptions and decreased in 2019 primarily due to decreased OPEB expense and a reduction in legal and engineering fees.

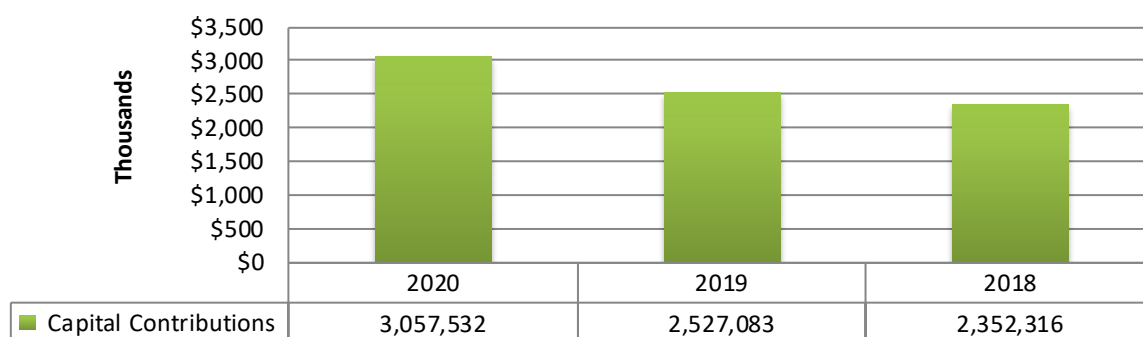
The District has operated at a profit in each of the past three years. The District's philosophy is to provide for all depreciation through rates based on the principle that current users should pay all costs associated with the sewer system as it is being used. Operating income is augmented by earnings on investments, other nonoperating revenues and capital contributions, less nonoperating expenses.

**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

RESULTS OF OPERATIONS (CONTINUED)

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 past three years.

CAPITAL CONTRIBUTIONS



The contributions are indicative of the growth of the District and include donated systems totaling \$361,236, \$137,103, and \$37,895 for the years ended December 31, 2020, 2019, and 2018, respectively.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital assets increased in 2020 and 2019 due to increased construction activity and donated systems.

Significant capital asset additions during the years included the following:

2020		2019	
SR 509 Sewer Relocation - 1A	\$ 801,901	North and South Anaerobic	
SR 509 Sewer Relocation - 1B	799,389	Digester Rehabilitation	\$ 1,746,061
North and South Anaerobic		Midway Clarifier Design	704,811
Digester Rehabilitation	265,943	SR 509 Sewer Relocation - 1A	275,201
Primary Clarifiers 1 & 2		Primary Clarifiers 1&2	
Upgrade Project	1,403,626	Upgrade Project	61,375
Third Secondary Clarifier &		Operations Bldg Roof	
Diversion Structure Upgrade	730,495	Replacement	259,865
Operations Bldg Roof		Normandy Park Sewer Rehab	128,226
Replacement	67,663	Basin 20 Siphon	94,063
North Hill Sewer Ext.	361,924	16th Ave. Pump Station	459,062
Basin 20 Siphon	1,578,821	Donated Systems	137,103
16th Ave. Pump Station	214,584		
Donated Systems	361,236		

**MIDWAY SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019**

CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)

Long-term liabilities increased in 2020 primarily due to an increase in the OPEB liability as a result of changes in assumptions. Long-term liabilities decreased in 2019 due to principal payments made by the District and decreases in the net pension and OPEB liabilities.

See Notes 4, 5, and 6 in the financial statements for detail activity in capital assets and long-term liabilities.

As of December 31, 2020, the District had \$17,628,685 of cash and cash equivalents set aside in construction accounts of which \$8,983,897 is committed under existing contracts. The District had \$21,511,850 of additional cash and cash equivalents in operating funds.

The District also has cash and cash equivalents in the amount of \$8,100 that have been segregated by the King County Investment Pool into an impaired pool. See Note 2 in the financial statements for additional information regarding the Pool.

**MIDWAY SEWER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Unrestricted:		
Cash and Cash Equivalents	\$ 39,140,535	\$ 37,838,909
Accounts Receivable - Users	617,347	545,472
Interest Receivable	35,519	78,759
Unbilled Utility Service Receivable	921,446	946,401
Miscellaneous Accounts Receivable	778,258	276,574
Prepaid Expenses	229,245	201,126
Contracts Receivable - Current Portion	111,547	112,981
Total	<u>41,833,897</u>	<u>40,000,222</u>
Restricted:		
Cash and Cash Equivalents	<u>8,100</u>	<u>10,819</u>
Total Current Assets	41,841,997	40,011,041
NONCURRENT ASSETS		
Unrestricted:		
Contracts Receivable, Less Current Portion	187,909	287,928
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,006,922	1,006,922
Construction in Progress	6,778,974	4,801,108
Capital Assets Being Depreciated:		
Plant in Service	112,551,849	107,637,512
Less: Accumulated Depreciation	<u>59,844,855</u>	<u>57,459,080</u>
Net Capital Assets	<u>60,492,890</u>	<u>55,986,462</u>
Total Noncurrent Assets	<u>60,680,799</u>	<u>56,274,390</u>
Total Assets	102,522,796	96,285,431
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions	254,993	232,857
Deferred Outflows Related to Other Postemployment Benefits	<u>21,855</u>	<u>16,957</u>
Total Deferred Outflows of Resources	<u>276,848</u>	<u>249,814</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 102,799,644</u>	<u>\$ 96,535,245</u>

See accompanying Notes to Financial Statements.

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

	<u>2020</u>	<u>2019</u>
LIABILITIES		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,926,833	\$ 633,730
Compensated Absences	151,892	147,000
Retainage Payable	294,285	118,798
Accrued Interest	2,660	2,993
Long-Term Debt - Current Maturities	133,004	133,004
Total	<u>2,508,674</u>	<u>1,035,525</u>
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities	931,029	1,064,033
Compensated Absences	96,527	103,124
Net Pension Liability	754,022	814,995
Other Postemployment Benefits Liability	1,903,781	1,418,860
Total Noncurrent Liabilities	<u>3,685,359</u>	<u>3,401,012</u>
Total Liabilities	6,194,033	4,436,537
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions	<u>277,477</u>	<u>492,667</u>
Total Liabilities and Deferred Inflows of Resources	6,471,510	4,929,204
 NET POSITION		
Net Investment in Capital Assets	57,553,778	54,442,379
Restricted for Impaired Investments	8,100	10,819
Unrestricted	38,766,256	37,152,843
Total Net Position	<u>96,328,134</u>	<u>91,606,041</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 102,799,644</u>	<u>\$ 96,535,245</u>

See accompanying Notes to Financial Statements.

MIDWAY SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Service Charges:		
Commercial	\$ 5,681,799	\$ 5,592,507
Residential	2,484,079	2,396,053
Public Authorities	749,179	979,420
Retirement Homes	95,378	98,640
Schools	56,636	106,098
Total Service Charges	<u>9,067,071</u>	<u>9,172,718</u>
Late Charges	15,342	46,487
Permit Fees	31,763	15,460
Rental of Flush Truck	76	-
Franchise Fee	335,228	313,130
Total Operating Revenues	<u>9,449,480</u>	<u>9,547,795</u>
OPERATING EXPENSES		
Sewage Treatment	2,100,058	2,001,995
Sewage Pumping	221,543	311,148
Sewage System	666,584	472,368
General and Administrative	3,009,937	2,709,555
Depreciation and Amortization	2,529,127	2,368,488
Total Operating Expenses	<u>8,527,249</u>	<u>7,863,554</u>
OPERATING INCOME	922,231	1,684,241
NONOPERATING REVENUES		
Investment Income, Net of Service Fees	680,933	1,102,384
Interest on Contracts	26,909	30,465
Miscellaneous	35,025	101,691
Net Gain (Loss) on Disposal of and Abandonment of Assets	5,116	(38,637)
Interest on Long-Term Debt	(5,653)	(6,318)
Total Nonoperating Revenues	<u>742,330</u>	<u>1,189,585</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,664,561	2,873,826
Capital Contributions	<u>3,057,532</u>	<u>2,527,083</u>
CHANGE IN NET POSITION	4,722,093	5,400,909
Net Position - January 1	<u>91,606,041</u>	<u>86,205,132</u>
NET POSITION - DECEMBER 31	<u><u>\$ 96,328,134</u></u>	<u><u>\$ 91,606,041</u></u>

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 9,437,585	\$ 9,600,102
Cash Paid to Vendors	(2,577,656)	(2,465,266)
Cash Paid to and for Employees and Commissioners	<u>(3,228,484)</u>	<u>(3,411,830)</u>
Net Cash Provided by Operating Activities	3,631,445	3,723,006
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	2,181,543	2,037,607
Collections on Contracts Receivable	114,523	113,337
Interest Received on Contracts	28,486	28,822
Proceeds from Sale of Assets	5,116	-
Interest Paid on Long-Term Debt	(5,986)	(6,650)
Expenditures for Plant in Service and Construction	(5,245,811)	(3,951,871)
Payment on Long-Term Debt	<u>(133,004)</u>	<u>(133,004)</u>
Net Cash Used by Capital and Related Financing Activities	(3,055,133)	(1,911,759)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	<u>722,595</u>	<u>1,091,986</u>
Net Cash Provided by Investing Activities	<u>722,595</u>	<u>1,091,986</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,298,907	2,903,233
Cash and Cash Equivalents - Beginning of Year	<u>37,849,728</u>	<u>34,946,495</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 39,148,635</u></u>	<u><u>\$ 37,849,728</u></u>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 39,140,535	\$ 37,838,909
Cash and Cash Equivalents - Restricted	8,100	10,819
Total	<u><u>\$ 39,148,635</u></u>	<u><u>\$ 37,849,728</u></u>

See accompanying Notes to Financial Statements.

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

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 922,231	\$ 1,684,241
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,529,127	2,368,488
(Increase) Decrease in Assets and Deferred Outflows of Resources:		
Accounts Receivable	(46,920)	(49,384)
Prepaid Expenses	(28,119)	(9,326)
Deferred Outflows Related to Pensions	(22,136)	(18,300)
Deferred Outflows Related to Other Postemployment Benefits	(4,898)	(4,288)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:		
Accounts Payable	40,082	18,810
Other Accrued Expenses	(1,705)	(111,098)
Net Pension Liability	(60,973)	(224,782)
Other Postemployment Benefits Liability	484,921	(91,693)
Deferred Inflows Related to Pensions	(215,190)	58,647
Other Income	35,025	101,691
Total Cash Provided by Operating Activities	<u>\$ 3,631,445</u>	<u>\$ 3,723,006</u>
SUPPLEMENTAL SCHEDULES OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	<u>\$ 361,236</u>	<u>\$ 137,103</u>
Contract Assessments	<u>\$ 13,070</u>	<u>\$ 75,800</u>
Receivables for Capital Contributions	<u>\$ 501,684</u>	<u>\$ 276,574</u>

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business, Nature of Operations, and Reporting Entity

Midway 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 a sewer system within its boundaries, primarily in the cities of SeaTac and Des Moines, Washington. The District is governed by an elected five-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 Districted 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.

Cash and Cash Equivalents

The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at the fair value of the Pool's underlying assets.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. However, all accounts receivable 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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For 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 cost. Expenditures for capital assets exceeding \$500, including capital leases and major repairs that increase useful lives, are capitalized. 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:

	<u>Estimated Useful Lives</u>
Sewer Systems	5 to 50 Years
Treatment Plant	5 to 50 Years
Office Building	5 to 50 Years
Equipment and Other	5 to 50 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.

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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

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.

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.

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.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing services in connection with the District's sewer system. Operating expenses include the costs associated with providing the District's 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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Contributions

Utility Local Improvement District 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 \$300. The District's bank balances as of December 31, 2020 and 2019 were \$44,592 and \$5,292, 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's 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

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

**MIDWAY 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Effective Duration</u>
<u>2020</u>		
King County Investment Pool:		
Main Pool	\$ 39,095,643	1.20 Years
Impaired Pool	8,100	
<u>2019</u>		
King County Investment Pool:		
Main Pool	\$ 37,833,317	0.92 Years
Impaired Pool	10,819	

Impaired Investments

As of December 31, 2020 and 2019, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. As of December 31, 2019, the Impaired Pool also held the residual investments in one commercial paper asset that was part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$12,989 and \$16,076 at December 31, 2020 and 2019, respectively. The District's unrealized loss for these investments is \$4,889 and \$5,257 at December 31, 2020 and 2019, respectively.

Interest Rate Risk

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

Credit Risk

As of December 31, 2020 and 2019, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by one NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by one NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 RESTRICTED ASSETS

In accordance with certain agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets are as follows:

	<u>Cash and Cash Equivalents</u>
<u>December 31, 2020</u>	
Current Restricted Assets:	
Impaired Investment Pool	<u>\$ 8,100</u>
<u>December 31, 2019</u>	
Current Restricted Assets:	
Impaired Investment Pool	<u>\$ 10,819</u>

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows at December 31:

	<u>Balance - Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance - End of Year</u>
<u>2020</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,006,922	\$ -	\$ -	\$ 1,006,922
Construction in Progress	<u>4,801,108</u>	<u>6,315,329</u>	<u>(4,337,463)</u>	<u>6,778,974</u>
Total	5,808,030	6,315,329	(4,337,463)	7,785,896
Capital Assets Being Depreciated:				
Sewer Systems	64,959,378	1,466,792	(143,352)	66,282,818
Treatment Plant	35,766,771	3,167,252	-	38,934,023
Office Building	2,319,549	1,281	-	2,320,830
Equipment and Other	<u>4,591,814</u>	<u>422,364</u>	<u>-</u>	<u>5,014,178</u>
Total	107,637,512	5,057,689	(143,352)	112,551,849
Accumulated Depreciation:				
Sewer Systems	(33,021,243)	(1,198,854)	143,352	(34,076,745)
Treatment Plant	(19,996,768)	(956,231)	-	(20,952,999)
Office Building	(1,237,782)	(46,064)	-	(1,283,846)
Equipment and Other	<u>(3,203,287)</u>	<u>(327,978)</u>	<u>-</u>	<u>(3,531,265)</u>
Total	(57,459,080)	(2,529,127)	143,352	(59,844,855)
Net Capital Assets	<u>\$ 55,986,462</u>	<u>\$ 8,843,891</u>	<u>\$ (4,337,463)</u>	<u>\$ 60,492,890</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2019</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,006,922	\$ -	\$ -	\$ 1,006,922
Construction in Progress	1,361,074	3,848,012	(407,978)	4,801,108
Total	2,367,996	3,848,012	(407,978)	5,808,030
Capital Assets Being Depreciated:				
Sewer Systems	64,671,383	287,995	-	64,959,378
Treatment Plant	35,595,050	171,721	-	35,766,771
Office Building	2,319,549	-	-	2,319,549
Equipment and Other	4,311,763	280,051	-	4,591,814
Total	106,897,745	739,767	-	107,637,512
Accumulated Depreciation:				
Sewer Systems	(31,824,704)	(1,196,539)	-	(33,021,243)
Treatment Plant	(19,156,952)	(839,816)	-	(19,996,768)
Office Building	(1,191,782)	(46,000)	-	(1,237,782)
Equipment and Other	(2,917,154)	(286,133)	-	(3,203,287)
Total	(55,090,592)	(2,368,488)	-	(57,459,080)
Net Capital Assets	<u>\$ 54,175,149</u>	<u>\$ 2,219,291</u>	<u>\$ (407,978)</u>	<u>\$ 55,986,462</u>

NOTE 5 LONG-TERM DEBT

Long-term debt payable outstanding at December 31, 2020 and 2019 consisted of direct borrowings, secured by the revenue of the sewer system, issued for utility construction:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Public Works Trust Fund Loan:		
2008 \$2,583,198 loan: Payable \$133,004 annually through the year 2028, plus interest at .50 annual percentage rate.	\$ 1,064,033	\$ 1,197,037
Less: Current Maturities	<u>133,004</u>	<u>133,004</u>
Total	<u>\$ 931,029</u>	<u>\$ 1,064,033</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 133,004	\$ 5,320	\$ 138,324
2022	133,004	4,655	137,659
2023	133,004	3,990	136,994
2024	133,004	3,325	136,329
2025	133,004	2,660	135,664
2026-2028	399,013	3,991	403,004
Total	<u>\$ 1,064,033</u>	<u>\$ 23,941</u>	<u>\$ 1,087,974</u>

NOTE 6 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows at December 31:

	<u>Balance - Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance - End of Year</u>	<u>Amounts Due Within One Year</u>
<u>2020</u>					
Public Works Trust Fund					
Loans	\$ 1,197,037	\$ -	\$ 133,004	\$ 1,064,033	\$ 133,004
Compensated Absences	250,124	195,058	196,763	248,419	151,892
Net Pension Liability	814,995	-	60,973	754,022	-
Other Postemployment Benefits Liability	1,418,860	525,286	40,365	1,903,781	-
	<u>\$ 3,681,016</u>	<u>\$ 720,344</u>	<u>\$ 431,105</u>	<u>\$ 3,970,255</u>	<u>\$ 284,896</u>
<u>2019</u>					
Public Works Trust Fund					
Loans	\$ 1,330,041	\$ -	\$ 133,004	\$ 1,197,037	\$ 133,004
Compensated Absences	361,222	176,809	287,907	250,124	147,000
Net Pension Liability	1,039,777	-	224,782	814,995	-
Other Postemployment Benefits Liability	1,510,553	109,423	201,116	1,418,860	-
	<u>\$ 4,241,593</u>	<u>\$ 286,232</u>	<u>\$ 846,809</u>	<u>\$ 3,681,016</u>	<u>\$ 280,004</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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:

	<u>2020</u>	<u>2019</u>
Pension Liabilities	\$ 754,022	\$ 814,995
Deferred Outflows of Resources	254,993	232,857
Deferred Inflows of Resources	277,477	492,667
Pension Expense	(17,042)	127,020

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 comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

Public Employees Retirement System (PERS)

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

PERS Plan 1 – Provides retirement, disability, and death benefits. Retirement benefits are determined as 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 five years of service.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 1 (Continued) – 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 five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions – The PERS Plan 1 member contribution rate is established by State statute at 6%. 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 \$105,957 and \$140,325 for the years ended December 31, 2020 and 2019, respectively.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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 five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65.

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 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 five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 – Defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% 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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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>
<u>2020</u>			
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>
<u>2019</u>			
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 \$175,300 and \$171,130 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*.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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 of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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.
- 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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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 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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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	100 %	

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	\$ 642,757	\$ 513,156	\$ 400,130
PERS 2/3	1,498,735	240,866	(794,989)
<u>2019</u>			
PERS 1	\$ 769,516	\$ 614,473	\$ 479,953
PERS 2/3	1,537,922	200,522	(896,904)

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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

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):

	2020	2019
PERS 1	\$ 513,156	\$ 614,473
PERS 2/3	240,866	200,522
Total	<u>\$ 754,022</u>	<u>\$ 814,995</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	0.015980%	0.014535%	-0.001445%
PERS 2/3	0.020644%	0.018833%	-0.001811%

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.015642%	0.015980%	0.000338%
PERS 2/3	0.019983%	0.020644%	0.000661%

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.

Pension Expense

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

	2020	2019
PERS 1	\$ (34,172)	\$ 73,182
PERS 2/3	17,130	53,838
Total	<u>\$ (17,042)</u>	<u>\$ 127,020</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 PENSION PLAN (CONTINUED)

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
<u>2020</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	2,857
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	52,811	-
Total PERS 1	<u>\$ 52,811</u>	<u>\$ 2,857</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 86,227	\$ 30,168
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	12,233
Changes of Assumptions	3,430	164,533
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	25,654	67,686
Contributions Subsequent to the Measurement Date	86,871	-
Total PERS 2/3	<u>\$ 202,182</u>	<u>\$ 274,620</u>
Total All Plans	<u>\$ 254,993</u>	<u>\$ 277,477</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 7 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	-	41,052
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	52,194	-
Total PERS 1	<u>\$ 52,194</u>	<u>\$ 41,052</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 57,450	\$ 43,111
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	291,878
Changes of Assumptions	5,135	84,132
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	33,008	32,494
Contributions Subsequent to the Measurement Date	85,070	-
Total PERS 2/3	<u>\$ 180,663</u>	<u>\$ 451,615</u>
Total All Plans	<u>\$ 232,857</u>	<u>\$ 492,667</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	\$ (12,965)	\$ (108,903)
2022	(408)	(32,848)
2023	3,956	(4,677)
2024	6,560	17,997
2025	-	(12,112)
Thereafter	-	(18,766)
Total	<u>\$ (2,857)</u>	<u>\$ (159,309)</u>

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 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	\$ 1,903,781	1,418,860
Deferred Outflows of Resources	21,855	16,957
OPEB Expense	525,286	(53,298)

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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 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	12	11
Inactive Employees Entitled to but not yet Receiving		
Benefit Payments	-	-
Active Employees	25	25

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 measurements were provided by the Washington State Actuary.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 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%

	<u>2020</u>	<u>2019</u>
Projected Salary Changes	3.50%	3.50%

Plus Service-Based Increases

Health Care 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 health care trend rates, see Office of the State Actuary's 2018 PEBB OPEB Actuarial Valuation Report.

Mortality Rates:

Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scall BB
Projection Period	Generational

	<u>2020</u>	<u>2019</u>
Inflation Rate	2.75%	2.75%

Postretirement Participation Percentage	65.00%
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Percentage with Spouse Coverage	45.00%
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**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	2020	2019
Balance - January 1	\$ 1,418,860	\$ 1,510,553
Service Cost	49,490	49,774
Interest	50,692	59,649
Changes in Experience and Data Assumptions	425,104	(162,721)
Changes in Benefit Terms	-	-
Benefit Payments	(40,365)	(38,395)
Other	-	-
Total	<u>\$ 1,903,781</u>	<u>\$ 1,418,860</u>

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the District calculated using a discount rate and health care 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	\$ 2,278,522	\$ 1,903,781	\$ 1,608,554
Health Care Cost Trend Rate	1,581,435	1,903,781	2,324,936
<u>2019</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 1,673,676	\$ 1,418,860	\$ 1,215,384
Health Care Cost Trend Rate	1,197,367	1,418,860	1,802,644

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

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

	2020	2019
Service Cost	\$ 49,490	\$ 49,774
Interest Cost	50,692	59,649
Changes in Experience and Data Assumptions	425,104	(162,721)
Total	<u>\$ 525,286</u>	<u>\$ (53,298)</u>

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

	2020	2019
Contributions Subsequent to the Measurement Date	<u>\$ 21,855</u>	<u>\$ 16,957</u>

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.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. 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. The District made no contributions to the plan in 2020 or 2019.

NOTE 10 RISK MANAGEMENT

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

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

- \$1,000,000 self-insured retention on liability loss – The member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss – The member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

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

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

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

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

The Pool is governed by a board of directors which is comprised of seven board members. The Pool's members elect the board and the positions are filled on a rotating basis. The board meets quarterly and is responsible for conducting the business affairs of Enduris.

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 COMMITMENTS

The District entered into an agreement with the City of Kent in 1991 that required the District to pay for one-half of street improvements for approximately 400 feet of the roadway located in front of the District's office building in 10 years if no Local Improvement District (LID) had been formed and the City was to undertake the improvement project. No LID has been formed. The District has requested that the City extend the agreement. As of December 31, 2020, the City has not responded to the District's request for an extension or notified the District that the improvement project will occur and no estimate has been made of the District's share of the costs of constructing the improvements should the City proceed with the project.

As of December 31, 2020, the District is committed under construction contracts totaling \$12,584,786 of which \$3,600,889 has been expended.

NOTE 12 CONTINGENCY

The contractor has filed a lawsuit against the District in the amount of \$500,000 regarding one of the District's construction projects. The District intends to vigorously defend against the lawsuit. The ultimate outcome cannot be determined.

**MIDWAY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 13 COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of 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.

MIDWAY SEWER DISTRICT
SCHEDULES OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability - Beginning	\$ 1,418,860	\$ 1,510,553	\$ 1,492,185
Service Cost	49,490	49,774	64,779
Interest	50,692	59,649	55,329
Changes in Experience and Data Assumptions	425,104	(162,721)	(78,592)
Changes in Benefit Terms	-	-	-
Benefit Payments	(40,365)	(38,395)	(23,148)
Other Changes	-	-	-
Total OPEB Liability - Ending	<u><u>\$ 1,903,781</u></u>	<u><u>\$ 1,418,860</u></u>	<u><u>\$ 1,510,553</u></u>
 Covered Payroll	 2,218,264	 2,263,694	 2,103,250
 Total OPEB Liability as a % of Covered Payroll	 85.82%	 62.68%	 71.82%

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.

MIDWAY SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

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	0.014535%	\$ 513,156	\$ 2,203,160	23.29%	68.64%
2019	0.015980%	614,473	2,248,974	27.32%	67.12%
2018	0.015642%	698,584	2,091,394	33.40%	63.22%
2017	0.015172%	719,923	1,917,156	37.55%	61.24%
2016	0.018783%	1,008,728	2,097,071	48.10%	57.03%
2015	0.020023%	1,047,404	2,000,052	52.37%	59.10%
2014	0.018411%	927,457	1,827,065	50.76%	61.19%
2013	0.019159%	1,119,537	1,731,369	64.66%	

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	0.018833%	\$ 240,866	\$ 2,203,160	10.93%	97.22%
2019	0.020644%	200,522	2,248,974	8.92%	97.77%
2018	0.019983%	341,193	2,091,394	16.31%	95.77%
2017	0.019515%	678,064	1,917,156	35.37%	90.97%
2016	0.020758%	1,045,138	1,970,850	53.03%	85.82%
2015	0.019802%	707,544	1,761,094	40.18%	89.20%
2014	0.018853%	381,096	1,639,106	23.25%	93.29%
2013	0.019028%	812,503	1,553,005	52.32%	

Notes to Schedule:

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

**MIDWAY SEWER DISTRICT
SCHEDULES OF EMPLOYER PENSION CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS***

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	\$ 105,957	\$ (105,957)	\$ -	\$ 2,213,375	4.79%
2019	140,325	(140,325)	-	2,227,351	6.30%
2018	109,685	(109,685)	-	2,169,725	5.06%
2017	97,226	(97,226)	-	1,996,393	4.87%
2016	103,130	(103,130)	-	2,055,732	5.02%
2015	145,876	(145,876)	-	2,040,075	7.15%
2014	84,954	(84,954)	-	1,866,818	4.55%
2013	66,269	(66,269)	-	1,744,421	3.80%

Notes to Schedule:

PERS 1 contributions in 2019 and 2015 include \$29,422 and \$46,279, respectively, 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	\$ 175,300	\$ (175,300)	\$ -	\$ 2,213,375	7.92%
2019	171,130	(171,130)	-	2,227,351	7.68%
2018	162,677	(162,677)	-	2,169,725	7.50%
2017	134,772	(134,772)	-	1,996,393	6.75%
2016	122,549	(122,549)	-	1,971,180	6.22%
2015	105,230	(105,230)	-	1,847,266	5.70%
2014	84,011	(84,011)	-	1,678,022	5.01%
2013	77,593	(77,593)	-	1,561,769	4.97%

Notes to Schedule:

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

**MIDWAY SEWER DISTRICT
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
SEWAGE TREATMENT		
Supervision	\$ 146,999	\$ 50,625
Labor	820,982	907,321
Utilities	314,126	285,694
Supplies and General Expense	737,835	596,725
Chemicals	24,772	59,010
Maintenance and Repairs	36,353	77,627
Auto and Truck	18,991	24,993
	<u>2,100,058</u>	<u>2,001,995</u>
Total	<u>\$ 2,100,058</u>	<u>\$ 2,001,995</u>
SEWAGE PUMPING		
Supervision	\$ 1,436	\$ (515)
Labor	103,632	221,837
Utilities	88,256	64,610
Supplies and General Expense	20,470	25,109
Maintenance and Repairs	7,749	107
	<u>221,543</u>	<u>311,148</u>
Total	<u>\$ 221,543</u>	<u>\$ 311,148</u>
SEWAGE SYSTEM		
Supervision	\$ 109,152	\$ 29,743
Labor	480,884	386,241
Maintenance of Lines	7,436	21,985
Supplies and General Expense	69,112	34,399
	<u>666,584</u>	<u>472,368</u>
Total	<u>\$ 666,584</u>	<u>\$ 472,368</u>

**MIDWAY SEWER DISTRICT
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
GENERAL AND ADMINISTRATIVE		
Office Salaries	\$ 274,094	\$ 250,864
Manager and Engineering Salaries	442,987	462,145
Salaries and Overhead Applied to Construction	<u>(117,813)</u>	<u>(76,192)</u>
Net General and Administrative Payroll	599,268	636,817
 Payroll Taxes	 207,849	 211,996
Employee Benefits	898,660	547,125
Account Collection	20,686	71,271
Accounting	83,442	62,365
Commissioners' Fees	39,642	29,126
Dues and Subscriptions	19,509	16,979
Engineering	3,347	-
Excise Taxes	195,769	195,626
Insurance	221,603	203,426
Legal	18,357	52,408
Maintenance of Office and Equipment	20,947	20,552
Miscellaneous	203,782	174,260
Office Supplies and Expense	114,404	132,445
State Audit Fees	11,386	8,471
Travel, Conventions, and Seminars	1,299	19,655
Utilities	22,768	22,772
Franchise and Utility Taxes	<u>327,219</u>	<u>304,261</u>
 Total	 <u><u>\$ 3,009,937</u></u>	 <u><u>\$ 2,709,555</u></u>

**MIDWAY SEWER DISTRICT
SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2022**

Due in 2021

Interest:

2008 Public Works Trust Fund Loan	\$ 5,320
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Principal:

2008 Public Works Trust Fund Loan	<u>133,004</u>
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Total Debt Requirements	<u><u>\$ 138,324</u></u>
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Due in 2022

Interest:

2008 Public Works Trust Fund Loan	\$ 4,665
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Principal:

2008 Public Works Trust Fund Loan	<u>133,004</u>
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Total Debt Requirements	<u><u>\$ 137,669</u></u>
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MIDWAY SEWER DISTRICT
SCHEDULE OF CHANGES TO CONSTRUCTION WORK IN PROGRESS
YEAR ENDED DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

Project Description	Balance 12/31/2019	Additions (Refunds/ Transfers)	Written-Off or Closed to Plant in Service	Balance 12/31/20
SR 509 Sewer Relocation - 1A	\$ 303,655	\$ 801,901	\$ (1,105,556)	\$ -
SR 509 Sewer Relocation - 1B	37,516	799,389	-	836,905
Kent Des Moines Road Culvert				
SR 516 Sewer Relocation Project	-	19,809	-	19,809
N & S Anaerobic Digester Rehab	2,529,267	265,943	(2,795,210)	-
Primary Clarifiers 1&2 Upgrade				
Project	61,375	1,403,626	-	1,465,001
Salt Water State Park Force Main	26,928	-	-	26,928
Third Secondary Clarifier and Diversion				
Structure	949,433	730,495	-	1,679,928
Operations Bldg. Roof Replacement	276,549	67,663	(344,212)	-
Treatment Plant Gates	27,830	-	(27,830)	-
Sound Transit FWLE Review	8,176	6,519	-	14,695
North Hill Sewer Ext	18,468	361,924	-	380,392
Basin 20 Siphon	94,063	1,578,821	-	1,672,884
16th Ave Pump Station	467,848	214,584	-	682,432
Spare Sump Pump	-	698	(698)	-
Polymer Mixers	-	13,632	(13,632)	-
HWCP #2	-	10,174	(10,174)	-
Sludge Recirculation Pump	-	4,424	(4,424)	-
Headworks Air Compressor	-	30,704	(30,704)	-
Belt Press Booster Pump	-	5,023	(5,023)	-
Total	<u>\$ 4,801,108</u>	<u>\$ 6,315,329</u>	<u>\$ (4,337,463)</u>	<u>\$ 6,778,974</u>



**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
Midway Sewer District
Kent, 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 Midway 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 December 16, 2021.

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 the 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 audit 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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
December 16, 2021