



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Soos Creek Water and Sewer District

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

Published June 17, 2024

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

June 17, 2024

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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

Soos Creek Water and Sewer District January 1, 2022 through December 31, 2022

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Soos Creek Water and Sewer District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 31, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or

significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

Pat McCarthy, State Auditor

Olympia, WA

May 31, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Soos Creek Water and Sewer District January 1, 2022 through December 31, 2022

Board of Commissioners
Soos Creek Water and Sewer District
Renton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Soos Creek Water and Sewer District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Soos Creek Water and Sewer District, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:


- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

May 31, 2024

FINANCIAL SECTION

Soos Creek Water and Sewer District January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

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

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2022

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – PEBB – 2022

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

Soos Creek Water and Sewer District (the District) is a Special Purpose District organized under the laws of the State of Washington, Revised Code of Washington, Title 57, to provide water and sewer services to specific areas in southeast King County, Washington. The District is not a segment or component of any other local government. Soos Creek Management Discussion and Analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the District's financial activity
- Identify changes in the District's financial position

The Management Discussion and Analysis is designed to focus on the current year's activities, resulting changes and currently known facts. Therefore, it should be read in conjunction with the District's financial statements.

Financial Highlights

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflows of resources at the close of 2022 by \$286,772,821.
- The District's net position from the Statement of Revenues, Expenses and Changes in Net Position increased by \$8,732,020.
- The District posted an income before contributions of \$2,560,258 in 2022. Sewer system revenues account for the majority of the increase in contribution to income as a result of new connections and rates.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows found after Management's Discussion and Analysis, provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

Reporting the District as a Whole

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information about the District as a whole and about its activities in a way that helps communicate the financial condition of the District. These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Except for interest and penalties on ULID assessments (See Note 1), all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the District's net position, and changes in them, as well as how cash was generated and used during the year. The District's net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. It is one way to measure the District's financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial condition is improving or deteriorating. You also need to consider other non-financial factors, such as the physical condition of the operating infrastructure; and changes in laws that impact water and sewer districts to assess the overall financial health of the District.

The District's annual financial report is presented in four parts:

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

1. This Management's Discussion and Analysis as required supplementary information
2. Financial statements
3. Notes to the financial statements
4. Required Supplementary Information

Financial Statements

The Financial Statements are presented in conformity with the Governmental Accounting Standards Board (GASB) Statements. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. The District only has one fund type: proprietary funds.

Proprietary funds are used by governments to account for their business-type activities and use the same basis of accounting utilized in private industry. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services rendered.

The District has one type of proprietary fund: Enterprise funds. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services and that fee is set to recover the costs of operations, including depreciation. The District currently has only one enterprise fund. The District is not legally required to adopt a budget; however, the District does so as a tool for monitoring and controlling revenues and expenses.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the financial information provided in the financial statements.

Financial Analysis

The statement of net position can serve as a useful indicator of the District's financial position. The District's net position (assets plus deferred outflows in excess of liabilities plus deferred inflows) at December 31, 2022 totaled \$286,772,821. The following is a condensed version of the statement of net position.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

Condensed Statement of Net Position

	2022	2021
Assets		
Current	\$ 58,538,635	\$ 44,055,588
Restricted	6,512	11,517
Non-current assets		
Investments, receivable and pension asset	10,363,213	16,329,912
Capital assets (net of depreciation)	<u>224,717,983</u>	<u>226,849,333</u>
Total Assets	293,626,343	287,246,350
Deferred outflows of resources - pensions	1,002,903	333,319
Deferred outflows of resources - OPEB	26,979	24,781
Current liabilities	3,701,162	3,676,794
Net pension liabilities	608,496	282,484
Net OPEB liabilities	2,145,374	2,348,970
Other non-current liabilities	<u>402,791</u>	<u>344,745</u>
Total liabilities	6,857,823	6,652,993
Deferred inflows of resources - pensions	1,025,581	2,910,656
Net position:		
Investment in capital assets	224,551,730	226,849,333
Restricted	966,872	209,792
Unrestricted	<u>61,254,219</u>	<u>50,981,676</u>
Total net position	<u>\$ 286,772,821</u>	<u>\$ 278,040,801</u>

See Note 10 for information on pensions.

See Note 13 for information on OPEB.

Changes in Net Position

The District's net position increased by \$8,732,020. The District posted income before contributions of \$2,560,258 in 2022. Growth in sewer and water connections increased with the growth in residential construction. At year-end 2022, the District served 40,576 sewer equivalent residential units (ERUs) and 23,858 water ERUs, an increase over 2021 of 0.72% in sewer ERUs and 0.22% in water ERUs.

At the end of 2022, the net position of the District was \$286,772,821. Of this amount, \$224,551,730 was invested in capital assets, \$61,254,219 was unrestricted assets and available for meeting the District's ongoing obligations, and \$966,872 was restricted assets.

The increase of \$8,732,020 in Net Position was due to income before contributions of \$2,560,258 in 2022 and Capital Contributions, also called Contributions in Aid of Construction, of \$6,171,762.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

Developers installed \$4,157,465 of water and sewer infrastructure. These capital contributions are water and sewer lines and associated appurtenances that are constructed by private developers, according to the District's strict construction standards, and upon project completion are donated to the District. The District then maintains these water and sewer lines in perpetuity. An additional \$2,014,297 in system connection fees were collected.

District total liabilities increased \$204,830 in 2022. This change reflects increases in accounts payable, pension liabilities and loans payable which are offset by decreases in contract retainage, accrued leave and OPEB liabilities.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2022	2021
Operating revenues:		
Sewer	\$ 35,875,974	\$ 33,473,980
Water	11,055,327	10,812,629
Other	2,206,690	1,800,954
Non-operating revenues	-	-
Total revenues	49,137,991	46,087,563
Operating expenses	46,530,155	45,070,462
Non-operating expenses	47,578	474,993
Total expenses	46,577,733	45,545,455
Income (loss) before contributions	2,560,258	542,108
Capital contributions	6,171,762	7,165,056
Change in net assets	8,732,020	7,707,164
NET POSITION, JANUARY 1	278,040,801	270,333,637
Net position, DECEMBER 31	<u>\$286,772,821</u>	<u>\$278,040,801</u>

Total District revenues increased \$3,050,428. Sewer revenue made up \$2,401,994 of the total revenue increase. This is largely a function of an overall rate increase of 12.82% in the combined rates for maintenance and treatment. In addition, water revenue marginally increased \$242,698. Other revenue increased \$405,736, which reflects the imposition of late fees after the pandemic-era restrictions were lifted.

The \$1,459,693 year-over-year increase in operating expenses was mainly due to an increase of \$756,449 in sewage treatment costs, a \$70,452 increase in purchased water, a \$309,459 increase in maintenance costs, a \$150,829 increase in business and accounting costs, a \$951,211 increase in administrative costs, a \$956,105 decrease in business taxes, and increased depreciation expense of \$177,398. The decrease of \$427,415 in non-operating expenses is comprised of two components, the adjustment for the Fair Market Value of Investments as required to be reported in GASB No. 72 and interest revenue. It is reported as a non-operating expense because the Fair

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

Market Value adjustment exceeds the interest revenue. The District anticipates holding all investments until maturity, at which time the District will receive the full value.

Capital Assets

The District's total capital assets at year-end 2022, including work in progress, exceeded \$224 million (net of accumulated depreciation). This total includes land, sewer collection and transmission mains and lines, water transmission and distribution mains and lines, buildings, sewer and water pump stations, and construction work in progress on the sewer and water systems. Detailed information on Capital Assets is available in Note 4 of the Notes to the Financial Statements. Significant capital asset activity during the year included:

- The District added \$3,153,303 (net) in sewer infrastructure and other assets. Of this total, \$2,583,237 represented fourteen completed developments that connected to the District's sewer system.
- The District added \$2,412,997 (net) in water infrastructure and other assets. Of this total, \$1,574,229 represented six completed developments that connected to the District's water system.
- At year-end 2022, work in progress totaled \$6,571,546. Of this total \$1,177,889 was for sewer system projects and \$5,393,667 was water system projects. This is a net increase of \$310,912 from the prior year.

Work in progress at year-end included:

	<u>2022</u>
Water Meter Change-out	\$ 3,424,827
Lift Station 24B Removal	194,125
Reservoir #6 Seismic Work	634,970
Kent Cascade Relief Interceptor	138,193
Lift Station 5B N Forcemain	144,009
District Network Upgrade	652,053
Rock Creek Culvert Crossing	77,439
Fuel Station C02-2022C	55,256
S 218th St AC Main Replacement	70,063
Boulevard Lanes Ph 2	147,334
LS #48 Phase 1 Alternate Analysis	140,072
HVAC Replacement 2021	171,556
Other projects	<u>721,649</u>
	<u>\$ 6,571,546</u>

See Notes 4 and 5 of the notes to the financial statements for more information on capital assets.

SOOS CREEK WATER AND SEWER DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

December 31, 2022

Long-term Debt

The District obtained a Public Works Trust Fund in 2021 in the amount of \$5,343,625 for the construction of the Tank 6 Seismic Improvements project. In 2022, the District drew down \$143,357 on that loan. The total amount is listed as long-term debt. Following completion of the project and loan draws, the State of Washington will develop and provide a loan repayment schedule.

See Note 8 of the notes to the financial statements for more information on long-term debt.

Outlook

The District's ongoing capital improvement plan calls for the expenditure of \$33.7 million through 2025. It is the District's intent to fund these capital expenditures through a combination of utility receipts, sewer and water system connection fees, and assets currently on hand. The District has no current plans for additional revenue bond financing; however, should they become available the District would pursue grants and/or additional low-interest rate loans.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning this report, or requests for additional information, may be addressed to the Finance Manager of the District at 14616 SE 192nd Street, Renton, WA 98058-9420.

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2022

	2022
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents - Notes 1 & 3	\$ 43,782,900
Investments	4,895,003
Receivables - Note 1	9,027,159
Inventory - Note 1	504,083
Prepays	329,490
Restricted assets - Notes 2 & 3	
Capital Improvement Fund	
Cash and cash equivalents	6,073
Revenue Bond Fund	
Cash and cash equivalents	439
TOTAL CURRENT ASSETS	58,545,147
NON-CURRENT ASSETS	
Investments	9,380,175
Assessments receivable - Note 2	1,695
Pension asset	981,343
TOTAL NON-CURRENT ASSETS	10,363,213
CAPITAL ASSETS - Notes 1 & 4	
Capital assets not being depreciated:	
Land and land rights	2,501,454
Intangible property rights	1,817,857
Construction work in process - Note 5	6,571,546
Capital assets being depreciated:	
Utility plant in service	369,487,435
Less accumulated depreciation	(155,660,309)
TOTAL CAPITAL ASSETS	224,717,983
TOTAL NON-CURRENT AND CAPITAL ASSETS	235,081,196
TOTAL ASSETS	293,626,343
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	1,002,903
Deferred outflows related to OPEB	26,979
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,029,882

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF NET POSITION

December 31, 2022

	<u>2022</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	3,426,850
Current portion of accrued vacation and sick leave	64,859
Deposits of developers and customers - Note 6	132,600
Contract retainage - Note 7	22,896
Current portion OPEB liability	<u>53,957</u>
TOTAL CURRENT LIABILITIES	3,701,162
NON-CURRENT LIABILITIES	
Accrued vacation and sick leave	259,434
Public Works Trust Fund loans - Note 8	143,357
Net pension liability - Note 10	608,496
Total OPEB liability, net of current portion - Note 13	<u>2,145,374</u>
TOTAL NON-CURRENT LIABILITIES	3,156,661
TOTAL LIABILITIES	6,857,823
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u>1,025,581</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	1,025,581
NET POSITION	
Investment in capital assets	224,551,730
Restricted	966,872
Unrestricted	<u>61,254,219</u>
TOTAL NET POSITION	<u><u>\$ 286,772,821</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31, 2022

	<u>2022</u>
OPERATING REVENUES	
Sewer	\$ 35,875,974
Water	11,055,327
Street lights	282,912
Miscellaneous service, rental and permit revenue	1,923,778
TOTAL OPERATING REVENUES	<u>49,137,991</u>
OPERATING EXPENSES	
Sewage treatment	22,679,191
Water purchased for resale	3,961,852
Street light power	245,365
Maintenance	5,877,801
Business and accounting	2,141,422
Administration	2,570,748
Business and payroll taxes	988,500
Depreciation	8,065,276
TOTAL OPERATING EXPENSES	<u>46,530,155</u>
OPERATING INCOME (LOSS)	2,607,836
NON-OPERATING REVENUES (EXPENSES)	
Investment interest	(40,524)
Loss on abandonment of utility plant	(7,054)
TOTAL NON-OP REVENUES (EXPENSES)	<u>(47,578)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	2,560,258
Contributions in aid of construction	<u>6,171,762</u>
CHANGE IN NET POSITION	8,732,020
NET POSITION, JANUARY 1	278,040,801
NET POSITION, DECEMBER 31	<u><u>\$ 286,772,821</u></u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2022

	2022
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 49,168,837
Payments to suppliers	(44,354,985)
Payments to employees	5,427,151
NET CASH FROM OPERATING ACTIVITIES	10,241,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(1,984,682)
Proceeds from Public Works Trust Fund loans	143,357
Cash contributed in aid of construction	2,014,297
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	172,972
CASH FLOWS FROM INVESTING ACTIVITIES:	
Fair market value gain/loss on investments	(817,689)
Interest on investments	607,023
NET CASH FROM INVESTING ACTIVITIES	(210,666)
NET CHANGE IN CASH BALANCE	10,203,309
CASH BALANCE AT BEGINNING OF YEAR	33,586,103
CASH BALANCE AT END OF YEAR	\$ 43,789,412
CASH BALANCE AT END OF YEAR CONSIST OF:	
Restricted	6,512
Unrestricted	43,782,900
TOTAL CASH BALANCE	\$ 43,789,412

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

Year ended December 31, 2022

	<u>2022</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 2,607,836
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation expense	8,065,276
Pension expense	(80,991)
OPEB expense	(156,772)
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	30,846
(Increase) decrease in inventory	(106,728)
(Increase) decrease in prepaid expenses	(53,127)
Increase (decrease) in accounts payable	214,784
Increase (decrease) in accrued vacation and sick leave	(63,061)
Increase (decrease) in deposits of developers and customers	(11,016)
Increase (decrease) in contract retainage	<u>(206,044)</u>
TOTAL ADJUSTMENTS	7,633,167
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,241,003</u>
NON-CASH CAPITAL FINANCING ACTIVITIES:	
Developer contributed capital	<u>\$ 4,157,465</u>

See accompanying notes to the financial statements

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Soos Creek Water and Sewer District (the District) is to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management who are responsible for their integrity and objectivity. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units except for interest and penalties earned on utility local improvement district assessments which are recorded as received. This practice is not in accordance with generally accepted accounting principles but does not result in a material difference. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

Reporting Entity

The District is a municipal corporation formed in King County, State of Washington, governed by an elected five-member board. The District's primary activity is to provide water and sewer services to residential and commercial customers within the District's boundaries. The District has no component units.

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of RCW Chapter 43.09. The District uses the BARS System of Accounts for governmental units.

Proprietary funds are accounted for on the "flow of economic resources" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included in the Statement of Net Position. The reported net position is segregated into three categories: invested in capital assets, restricted, and unrestricted. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in the changes in net position. The proprietary fund measurement focus is upon the determination of net income, financial position, and statement of cash flows.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, except that accrued assessment interest is not reflected therein. The District's financial statements include the financial position and results of all operations that the District manages.

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

Cash and Cash Equivalents

The District presents its cash flow statements using the direct method. For purposes of the statements of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. For more information, see Note 3, Deposits and Investments.

Cash and cash equivalents at the balance sheet date consisted of the following:

SOOS CREEK WATER AND SEWER DISTRICT

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	<u>2022</u>
Cash in bank	\$ 12,227,487
Cash in bank lockbox facility	108,466
Deposits in transit	74,699
Petty Cash	3,400
Cash in Washington State Local Government Investment Pool	31,362,480
Cash in King County Investment Pool - Capital Improvement Fund	6,073
Cash in King County Investment Pool - Revenue Bond Fund	439
Cash in King County Investment Pool	<u>6,368</u>
Total	<u>\$ 43,789,412</u>

Accounts Receivable

Unbilled utility service receivables are recorded at year-end. The District takes advantage of its authority to file liens against properties with delinquent utility balances. Such liens are recorded at the King County Recorder's Office and are maintained until balances are paid in full. Interest is assessed until these accounts are paid. For this reason, the District does not provide an allowance for doubtful accounts, all accounts are considered collectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

The following amounts were due the District at December 31:

	<u>2022</u>
Utilities	\$8,315,877
Developers	487,124
Other	<u>224,158</u>
Total	<u>\$9,027,159</u>

Inventories

Inventories are valued at the average acquisition cost, which approximates market value. The District conducts an annual physical inventory count. Inventories consisted of the following as of December 31:

	<u>2022</u>
Materials and supplies	\$ 352,590
Small tools	151,493
Total	<u>\$ 504,083</u>

Utility Plant and Depreciation

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

SOOS CREEK WATER AND SEWER DISTRICT

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Expenditures for maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Renewals and betterments that materially extend the life of the assets are capitalized. At the time property is sold, retired, or otherwise disposed of, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of five to fifty years. Initial depreciation on utility plant is recorded in the year subsequent to purchase. Depreciation expense for the year ended December 31, 2022 was \$8,065,276. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs related to projects ultimately constructed are transferred to utility plant; charges related to abandoned projects are expensed.

The useful lives of various components of capital assets are shown in the chart below.

Assets	Useful Life
Sewer collection mains & pipes	50 years
Water transmission mains & pipes	50 years
Pumping stations & reservoirs	20 to 50 years
Buildings	20 to 50 years
Machinery, equipment, & other	5 to 7 years
Technology	5 to 15 years

Capitalization of Expenses

The District incurs engineering, legal, and other expenses in connection with the design and construction of utility plant. These costs are capitalized and recorded as a cost of utility plant. Expenditures for capital assets that exceed \$5,000, including capital leases and repairs that extend useful lives in excess of one year are capitalized.

Income and Property Taxes

The District is a municipal corporation and as such is exempt from income and property taxes.

Miscellaneous Operating Revenue

Miscellaneous operating revenue is comprised of miscellaneous service, rental, and permit revenue.

Compensated Absences

The District accrues accumulated unpaid vacation and sick leave benefits as earned. Sick leave is accrued at 50% of the amount due, as that portion would be paid on termination. The liabilities for unpaid vacation and sick leave benefits at December 31, 2022 was \$324,293, of which \$64,859 is considered a current liability.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Vacation

Each full-time employee receives vacation benefits as follows:

<u>Years of Continuous Service</u>	<u>Monthly Vacation Credit</u>	<u>Equivalent Annual Vacation Earned</u>
First year	1 day	12 working days
After two years	1.083 days	13 working days
After three years	1.167 days	14 working days
After five years	1.25 days	15 working days
After ten years	1.50 days	18 working days
After fifteen years	1.67 days	20 working days
After twenty years	1.75 days	21 working days
After twenty-five years	1.833 days	22 working days

During the first year of employment, an employee is not entitled to take any vacation. If an employee's employment with the District terminates prior to completing one year of employment, the employee is not entitled to any prorated vacation pay. During the second and subsequent years of employment, vacation will accrue and be eligible on a continuing basis each month. An employee may not accumulate more than 1.5 times his/her annual vacation days. At the end of the year, or at the time of termination or retirement, vacation accruals will be adjusted accordingly. Each December 31st all vacation accruals in excess of the allowable amount are dropped.

Sick Leave

Each full-time regular employee of the District accrues sick leave benefits at the rate of one day per calendar month, beginning with the first calendar month following the commencement of employment. The sick leave accruing each month is credited to the employee at the end of that month. The amount of accumulated sick leave is limited to 520 hours.

Upon retirement or voluntary termination, an employee receives 50% of any remaining unused accumulated sick leave at the employee's then current rate of pay, less the last two years' accruals.

Restricted Resources

When resources meeting more than one of the net position classifications are comingled in an account, if the expense meets the constraints of the classification, the assumed order of spending is restricted first, then unrestricted.

Pensions

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

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

NOTE 2 - RESTRICTED ASSETS

SOOS CREEK WATER AND SEWER DISTRICT

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The King County Treasurer's Office maintains cash, investments, and bond funds. For more information, see Note 3, Deposits and Investments.

Revenue Bond Funds

In accordance with bond resolutions and certain related agreements, several restricted funds were established. Assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted bond funds included the following as of December 31, 2022:

	<u>2022</u>
Bond fund cash	<u>\$ 439</u>
Total	<u>\$ 439</u>

These restricted funds are for redemption of revenue bonds and related interest costs. Restricted bond fund assets shown as of December 31, 2022 included the following investments:

	<u>2022</u>
King County Investment Pool	<u>\$ 439</u>
Total	<u>\$ 439</u>

Assessments Receivable

Assessment levies are recorded as filed with the King County Treasurer for Utility Local Improvement District (ULID) projects; payments are deposited to the revenue bond fund. The following sewer assessments were outstanding as of December 31, 2022:

	<u>2022</u>
ULID No. 107	<u>\$ 1,695</u>
Total	<u>\$ 1,695</u>

Special Funds

In accordance with District resolutions to conform with current law, separate restricted funds are required. Assets held in these funds are restricted for specific uses, including construction and replacement of utility plant. Restricted funds included the following special funds as of December 31, 2022:

	<u>2022</u>
Capital Improvement Fund	
King County Investment Pool	<u>\$ 6,073</u>
	<u>\$ 6,073</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Restricted and special fund assets shown on the Statement of Net Position included the following investments:

	<u>2022</u>
King County Investment Pool	
Revenue Bond Fund	\$ 439
Capital Improvement Fund	<u>6,073</u>
	<u>\$ 6,510</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

The District's cash, cash equivalents and investments consist of cash on hand or demand deposits held by banking institutions and pooled investments managed by the Office of the State Treasurer and the King County Treasury Division. The District voluntarily uses the Office of the State Treasurer (OST) and King County to maintain cash and investments in their respective external investment pools. In accordance with state investment laws, the District has entered into a formal inter-local agreement with the OST and King County to have funds not required for immediate expenditure be invested in the Local Government Investment Pool (LGIP), the Separately Managed Account (SMA) with OST and the King County Investment Pool (Pool). Oversight of the LGIP and SMA is provided by the State Finance Committee in accordance with RCW 43.250. Oversight of the Pool is provided by the County Finance Committee in accordance with RCW 36.48.070.

Both the OST and the King County Treasury Division pools and invests all short-term cash surpluses not otherwise invested by individual funds of the State/County. Earnings from these pooled investments are allocated to the District based upon the District's proportionate share in the pooled investments. For the purpose of reporting cash and cash equivalents in the Statement of Cash Flows, the District records the cash on hand, demand deposits and pooled investments managed by OST and the King County Treasury Division as cash and cash equivalents as is reflected in the Statement of Net Position.

The Revised Code of Washington allows OST and King County to invest its surplus funds in US Treasuries and Agency securities, certificates of deposits, commercial paper, bankers' acceptances, and repurchase agreements secured by eligible securities. All investments are stated at fair value. The change in fair value of investments is reflected in the Statement of Revenues, Expenses and Changes in Net Position as investment revenue. King County reports that its pool's effective duration is 0.99 years as of December 31, 2022. The LGIP reports that its pool's effective duration is 19 days as of December 31, 2022. Due to its highly liquid nature, from the District's perspective, the pool is considered a cash-equivalent. The King County Investment Pool held certain assets that are considered impaired as of December 31, 2022. The ultimate disposition of these impaired assets is not expected to be significantly different than the market valuation provided by King County as of December 31, 2022.

The District uses demand deposits with commercial banks. These deposits are entirely insured. While the District does not have a formal policy regarding custodial credit risk, the District does not assume any custodial credit risk as all of its cash equivalents are held in either in the state's LGIP or the King County Investment Pool, which is not an investment evidenced by securities.

As of December 31, 2022, the District held the following cash and cash equivalents. The amounts reported for the King County Pool are reported at fair value, which is the same as the value of the pool per share in accordance with GASB Statement No. 31. The Pool does not impose any restrictions on participant withdrawals. The amounts reported for the state's LGIP are reported at amortized cost, which is the same as the value of the pool per share, in accordance with GASB Statement No. 31. The LGIP does not impose any restrictions on participant withdrawals.

The District uses the valuations provided by King County and OST. As such, it does not employ separate valuations. Since the King County Pool and the state's LGIP is essentially a cash equivalent, the use of the five approved methods under GASB Statements 40 and 59 are not applicable.

SOOS CREEK WATER AND SEWER DISTRICT

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As of December 31, 2022, the District had the following investments:

Description	Maturities	Fair Value
US Treasury T-Bills	2023	\$ 2,434,766
Bullet - FHLB	2023	\$ 495,625
Supra-Bullet - Various	2023	\$ 1,964,612
Investments-Current		4,895,003
US Treasury T-Notes	2024-2027	5,145,978
Bullet - FFCB	2024	475,350
Agency-FRN - FHLB	2024	500,220
Callable - FHLMC and FHLB	2025-2026	1,356,292
Supra-Bullet - Various	2024-2026	1,902,335
Investments-Non Current		9,380,175
Total Investments		\$ 14,275,178

Fair Value Measurement: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets. These valuation inputs are considered most reliable.

Level 2 inputs are quoted prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other observables. These valuation inputs are considered to be reliable.

Level 3 inputs are significant unobservable inputs and are considered to be the least reliable.

The District relies on the King County Pool and the LGIP to value its investments using the valuation inputs described above. The OST also provides market values for the District's SMA account. The District holds no investments that require valuation using levels 2 or 3 inputs.

Impaired Investments. As of December 31, 2022, all impaired commercial paper investments in the King County Pool have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired investment pool principal (maximum risk of loss) on December 31, 2022 was \$22,653; the fair value of these investments on December 31, 2022 was \$12,708.

Interest Rate Risk. As of December 31, 2022, the Pool's average duration was .099 years and the LGIP reported a duration of 19 days as of December 31, 2022. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool and LGIP must have a final maturity, or weighted average life, no longer than five years. While the Pool's and LGIP'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. The investments managed by the OST SMA account mature from 2023 to 2027 and as such have interest rate risk. It is the intention of the District to hold these investments to maturity, so annual changes in market valuation due to market rate changes in interest rates should be minimal.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2022, the District's investment in the Pool and LGIP was not rated by a nationally recognized statistical rating organization (NRSRO) and neither the Pool nor LGIP are registered with the SEC. In compliance with state statutes, Pool and LGIP policies authorize investments in U.S. Treasury securities, U.S. agency securities

SOOS CREEK WATER AND SEWER DISTRICT

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December 31, 2022

and mortgage-backed securities, corporate notes (rated at least “A”), municipal securities (rated at least “A” by two NRSROs), commercial paper (rated at least the equivalent of “A-1”), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer’s office. For the OST’s SMA account for investments, almost all securities owned are from the US Government.

Custodial Credit Risk. The risk associated with the failure of a depository financial institution is custodial credit risk. In the event of a depository financial institutions’ failure, it is the risk that the District would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The District minimizes custodial credit risk by following the restrictions set forth in state law.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at www.tre.wa.gov.

NOTE 4 – CAPITAL ASSETS (UTILITY PLANT)

Major costs for capital assets, including major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Utility plant in service is recorded at cost. Donations by developers are recorded at the donor cost.

Utility plant activity for the year ended December 31, 2022, was as follows:

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

	Balance Dec. 31, 2021	Increase	Decrease	Balance Dec. 31, 2022
Utility plant not being depreciated:				
Land & land rights	\$ 2,501,454	\$ -	\$ -	\$ 2,501,454
Intangible property rights	1,817,857	-	-	1,817,857
Construction in progress	6,260,634	1,202,562	891,650	6,571,546
Total	10,579,945	1,202,562	891,650	10,890,857
Utility plant being depreciated:				
Sewer collection mains & pipes	206,236,137	2,866,048	5,952	209,096,233
Water transmission mains & pipes	80,639,299	1,609,674	24,397	82,224,576
Pumping stations & reservoirs	51,818,821	672,914	-	52,491,735
Buildings	8,172,029	225,108	-	8,397,137
Machinery, equipment, & other	17,054,849	256,324	33,419	17,277,754
Total	363,921,135	5,630,068	63,768	369,487,435
Less accumulated depreciation:				
Sewer collection mains & pipes	79,423,481	4,054,853	2,588	83,475,746
Water transmission mains & pipes	28,015,090	1,704,079	20,707	29,698,462
Pumping stations & reservoirs	23,494,012	1,454,950	-	24,948,962
Buildings	3,105,895	175,037	-	3,280,932
Machinery, equipment, & other	13,613,269	676,357	33,419	14,256,207
Total	147,651,747	8,065,276	56,714	155,660,309
Total depreciable assets, net	216,269,388	(2,435,208)	7,054	213,827,126
Total capital assets, net	\$226,849,333	\$ (1,232,646)	\$ 898,704	\$224,717,983

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

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NOTE 5 - WORK IN PROGRESS

Work in progress represents expenditures to-date on projects authorized by the Board of Commissioners. Costs are accumulated on projects until completed and accepted by the Board. Upon acceptance by the Board, the projects are transferred to Utility Plant.

Work in progress as of December 31, 2022 was composed of the following:

	<u>2022</u>
Water Meter Change-out	\$ 3,424,827
Lift Station 24B Removal	194,125
Reservoir #6 Seismic Work	634,970
Kent Cascade Relief Interceptor	138,193
Lift Station 5B N Forcemain	144,009
District Network Upgrade	652,053
Rock Creek Culvert Crossing	77,439
Fuel Station C02-2022C	55,256
S 218th St AC Main Replacement	70,063
Boulevard Lanes Ph 2	147,334
LS #48 Phase 1 Alternate Analysis	140,072
HVAC Replacement 2021	171,556
Other projects	<u>721,649</u>
	<u>\$ 6,571,546</u>

NOTE 6 - DEPOSITS OF DEVELOPERS AND CUSTOMERS

The District requires developers and customers to deposit funds upon beginning a project to which charges for District services are applied.

The following deposits of developers and customers were on hand as of December 31, 2022:

	<u>2022</u>
Guaranty deposits	\$ 3,215
Latecomer deposits	8,984
Developer easement deposits	16,755
Main extension deposits	8,595
Prepaid connection charges	14,174
Prepaid sewer area charges	1,015
Customer deposits	79,100
Prepaid water area charges	<u>762</u>
Total	<u>\$ 132,600</u>

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

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NOTE 7 – CONTRACT RETAINAGE

The following amounts were due to contractors for District construction contracts as of December 31, 2022:

	<u>2022</u>
Bonner Brothers	<u>\$ 22,896</u>
	<u>\$ 22,896</u>

NOTE 8 - PUBLIC WORKS TRUST FUND LOANS

2021 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on August 6, 2021, to obtain a loan of \$5,343,625 for the construction of the Tank 6 Seismic Improvements.

The loan bears interest at 0.94% per annum on the outstanding principal balance. The outstanding balance as of December 31, 2022 is \$143,357. The term of the loan is twenty (20) years, with the final payment due July 1, 2041. The loan will be repaid solely from current and future utility revenues.

The District has not been provided an amortization schedule as drawdowns have just begun and the project is incomplete. The entire loan payable is reported as a long-term liability with no current amount due.

2022 Public Works Trust Fund Loan

The District entered into an agreement with the Department of Community Development of the State of Washington on November 5, 2022, to obtain a loan in the amount of \$3,385,520 for the construction of the Boulevard Lanes Phase 2 Water Main Replacement Project.

The loan interest rate is 1.39% and the term is twenty (20) years. This loan will also be repaid solely from current and future utility revenues.

As of December 31, 2022, the project had not commenced nor had any loan drawdowns been taken.

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

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

	<u>Balance Dec. 31, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Dec. 31, 2022</u>	<u>Due Within One Year</u>
Public Works Trust Fund loans	\$ -	\$ 143,357	\$ -	\$ 143,357	\$ -
Compensated absences	387,354		63,061	324,293	64,859
Net pension liability	282,484	326,012	-	608,496	-
Total OPEB liability	<u>2,398,533</u>	<u>-</u>	<u>199,202</u>	<u>2,199,331</u>	<u>53,937</u>
Total long-term liabilities	<u>\$ 3,068,371</u>	<u>\$ 469,369</u>	<u>\$ 262,263</u>	<u>\$ 3,275,477</u>	<u>\$ 118,796</u>

SOOS CREEK WATER AND SEWER DISTRICT

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December 31, 2022

NOTE 10 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (608,496)
Pension assets	981,343
Deferred outflows of resources	1,002,903
Deferred inflows of resources	(1,025,581)
Pension expense/expenditures	(80,991)

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 Annual Report may be obtained by writing to:

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council (PFC) adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

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

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

SOOS CREEK WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January – August 2022:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	10.25%	6.36%
September – December 2022:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	10.39%	6.36%

The District's actual PERS plan contributions were \$140,171 to Plan 1 and \$219,067 to Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2021 Economic Experience Study*.

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

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g., active, retiree, or survivor), as the base table. 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 each year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

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

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC. The investment return assumption was reduced from 7.5% to 7.0% and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% 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 (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the District's proportionate share of the net pension liability would be if it were

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calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate	1% Increase 8.00%
PERS 1	\$ 812,942	\$ 608,496	\$ 430,062
PERS 2/3	\$ 1,155,660	\$ (981,343)	\$ (2,737,027)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2022, the District reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 608,496
PERS 2/3	\$ (981,343)

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.023131%	0.021854%	-0.001277%
PERS 2/3	0.027744%	0.026460%	-0.001284%

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

Pension Expense

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

	Pension Expense
PERS 1	\$ 242,552
PERS 2/3	(323,543)
TOTAL	\$ (80,991)

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Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(100,846)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	73,438	-
TOTAL	\$ 73,438	\$ (100,846)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 243,154	\$ (22,215)
Net difference between projected and actual investment earnings on pension plan investments	-	(725,514)
Changes of assumptions	546,964	(143,215)
Changes in proportion and differences between contributions and proportionate share of contributions	26,974	(33,791)
Contributions subsequent to the measurement date	112,373	-
TOTAL	\$ 929,465	\$ (924,735)

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Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2023	\$ (42,676)
2024	(38,761)
2025	(48,624)
2026	29,215
2027	0
Thereafter	0

Year ended December 31	PERS 2/3
2023	\$ (224,411)
2024	(203,604)
2025	(243,574)
2026	329,869
2027	116,829
Thereafter	117,247

NOTE 11 –HEALTHCARE REIMBURSEMENT ACCOUNT

Description of the Plan

The District adopted a healthcare reimbursement account VEBA plan (HRA/VEBA) effective January 1, 2001. The intention of the District is that the HRA/VEBA qualify as a tax-exempt trust as authorized by Internal Revenue Code section 501(c)(9). The HRA/VEBA is a pre- and post-retirement, tax-exempt, medical expense reimbursement account.

Contributions

The HRA/VEBA accounts are funded in two ways, through annual sick leave cash-outs and through medical and dental benefits equalization.

Sick Leave Cash-outs. In January of each year, annual net sick leave (annual hours earned less hours used) is deposited to the employees' HRA/VEBA accounts. The number of sick leave hours and the employees' rate of pay are as of December 1 of the prior year. The HRA/VEBA deposit schedule for fulltime employees is as follows:

Accumulated Sick Leave as of December 1	Deposit to HRA/VEBA Account
0 to 167 hours	0
168 to 300 hours	25% of annual net sick leave (24 hours max)
301 to 520 hours	50% of annual net sick leave (48 hours max)
> 520 hours	100% of sick leave accrual over 520 hours

The deposit schedule for regular part-time employees would be on a pro-rated basis.

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Benefits Equalization. The District determined that it was prudent to pay all employees the same medical and dental insurance benefit regardless of marital and/or family status. Those employees that waive medical and/or dental insurance coverage offered by the District for spouses and/or children receive an amount equal to the difference between full coverage (employee, spouse, and children) and their elected coverage. This difference is deposited monthly into the employees' HRA/VEBA accounts.

The District's 2022 contributions to the employees' HRA/VEBA accounts totaled \$557,873. Employees are always 100% vested in their HRA/VEBA accounts.

NOTE 12 – RISK MANAGEMENT

Property and Liability Insurance

Soos Creek Water & Sewer District is a member of the Enduris Washington (Pool). 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. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability; Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement policy. Pollution and Cyber coverage are provided on a claims made coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an occurrence coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Liability:				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability ⁽²⁾	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000

SOOS CREEK WATER AND SEWER DISTRICT

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Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay ⁽³⁾

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible

(2) Terrorism liability is fully funded by the Pool i.e., no excess/reinsurance is procured.

(3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
Property ⁽²⁾:				
Buildings and Contents	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Mobile Equipment	Per Occurrence	\$250,000	\$1 billion	\$1,000 - \$250,000
Boiler and Machinery ⁽³⁾	Per Occurrence	Varies	\$100 million	Varies
Business Interruption (BI)/ Extra Expense (EE) ⁽⁴⁾	Per Occurrence	\$250,000	\$100 million (BI)/ \$50 million (EE)	\$1,000 - \$250,000
Sublimit ⁽⁵⁾:				
Flood	Per Occurrence	\$250,000	\$50 million (shared by Pool members)	\$1,000 - \$250,000
Earthquake	Per Occurrence	5% of indemnity, subject to \$250,000 minimum	\$10 million (shared by Pool members)	\$1,000 - \$250,000
Terrorism Primary	Per Occurrence Pool Aggregate	\$250,000	\$100 million per occurrence \$200 million aggregate	\$1,000 - \$250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	\$500,000	\$600 million/ Pool aggregate \$1.1 billion/ per occurrence APIP program \$1.4 billion/ APIP program aggregate	\$0
Automobile Physical Damage ⁽⁶⁾	Per Occurrence	\$25,000; \$100,000 for Emergency Vehicles; \$250,000 for Emergency Vehicles valued >\$750,000	\$1 billion	\$250 - \$1,000
Crime Blanket ⁽⁷⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Named Position ⁽⁸⁾	Per Occurrence	\$50,000	\$1 million	\$1,000
Cyber ⁽⁹⁾	Each Claim APIP Aggregate	\$100,000	\$2 million \$40 million	20% Copay
Identity Fraud Expense Reimbursement ⁽¹⁰⁾	Member Aggregate	\$0	\$25,000	\$0

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Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays ⁽¹⁾
(1)	Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.			
(2)	Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over \$250,000 to the limit of \$1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.			
(3)	Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.			
(4)	Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to \$500,000 of coverage with a \$2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.			
(5)	This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.			
(6)	Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.			
(7)	Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of \$2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from \$5,000 to \$2 million.			
(8)	Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between \$5,000 and \$1 million.			
(9)	Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between \$50,000 and \$100,000 depending on the insured/members property TIV with an 8-hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is \$2 million, with various declared sub-limits.			
(10)	Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a \$25,000 limit per member.			

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Unemployment Compensation Self-insurance

The District is self-insured for unemployment compensation exposure. Claims are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred.

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75, *Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions* for the year 2022:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 2,199,331
OPEB assets	-
Deferred outflows of resources	26,979
Deferred inflows of resources	-
OPEB expense/expenditures	(156,772)

In addition to pension benefits as described in Note 10, the District, through its participation in the Health Care Authority (HCA) health insurance plans, also has postemployment liability arising out of the cost of providing health care insurance to retired District employees.

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage.

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PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between PEBB OPEB plan and its member employers (of which the District is), their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. 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 HCA, employers, and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumption used in valuations presented in this note assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and does not issue a publicly available financial report as these funds are not held in a Trust.

Employees Covered by Benefit Terms. Employers participating in the PEBB plan include the State of Washington (general government and higher education institutions, and component units), 15 of the state's K-12 schools and educational service districts (ESDs), and 274 political subdivisions and tribal governments.

Membership in the PEBB plan for the District consisted of the following:

Summary of Plan Participants As of December 31, 2022	
Active employees	51
Retirees receiving benefits	10
Retirees not receiving benefits	4
Total active employees and retirees	<u>65</u>

The PEBB OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. The District's PEBB members are all covered in PERS.

Benefits Provided. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2021, the average weighted implicit subsidy was valued at \$384 per adult unit per month. In calendar year 2022, the average weighted implicit subsidy is projected to be \$390 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature. In calendar year 2022 the explicit subsidy was up to \$183 per member per month, and it will remain \$183 per member per month in calendar year 2023.

SOOS CREEK WATER AND SEWER DISTRICT

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Contribution Information. Administrative costs as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits. The benefits are funded on a pay-as-you-go basis. The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows:

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Required Premium*	
Medical	\$ 1,151
Dental	82
Life	4
Long-term disability	2
Total	<u>\$ 1,239</u>
Employer contribution	\$ 1,070
Employee contribution	169
Total	<u>\$ 1,239</u>

*Per 2022 PEBB Financial Projection Model 3.0. Per capita cost based on subscribers; includes non-Medicare risk pool only. Figures based on calendar year 2022 which includes projected claims cost at the time of this reporting.

Actuarial Assumptions. The total OPEB liability was determined using the following methodologies:

Actuarial valuation date	6/30/2022
Actuarial measurement date	6/30/2022
Actuarial cost method	Entry Age
Amortization method	Recognized Immediately
Asset Valuation method	N/A - No assets

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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Discount Rate*	
Beginning of Measurement Year	2.16%
End of Measurement Year	3.54%
Projected salary changes	3.50% plus service-based salary increases
Healthcare Trend Rates**	Initial trend rate ranges from about 2-11%, reaching an ultimate rate of approximately 4.30% in 2075.
Mortality Rates	
Base Mortality Table	PubG.H-2010 (General)
Age Setback	0 year
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Inflation Rate	2.75%
Post-retirement participation percentage	65%
Percentage with spouse coverage	45%

* Source: Bond Buyer General Obligation 20-Bond Municipal Index

**Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see Office of the State Actuary's 2022 PEBB OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, after 2023 when the cap is \$183, it is assumed to grow at the health care trend rates. The state Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Total OPEB Liability. As of December 31, 2022, the District reported a total OPEB liability of \$2,199,331.

Changes in Total OPEB Liability. The following table presents the change in total OPEB liability as of December 31, 2022, reporting date:

Changes in Total OPEB Liability	
Total OPEB Liability- Beginning	<u>\$2,398,533</u>
Changes for the year:	
Service cost	112,761
Interest cost	53,788
Changes in benefit terms	-
Change in experience data and assumptions	(323,321)
Benefit payments	(42,430)
Other	-
Net Changes in Total OPEB Liability	<u>(199,202)</u>
Total OPEB Liability- Ending	<u>\$2,199,331</u>

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Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the District as an employer calculated using the discount rate of 3.54 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.54 percent) or 1 percentage point higher (4.54 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 2,594,216	\$ 2,199,331	\$ 1,882,896

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the District as an employer, calculated using the health care trend rates of 2-11 percent decreasing to 4.30 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (1-10 percent) or 1 percentage point higher (3-12 percent) than the current rate:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Healthcare Trend Rate	\$ 1,857,283	\$ 2,199,331	\$ 2,634,184

END OF NOTES

A copy of this report is available at the District, 14616 SE 192nd Street, Renton, WA 98058-9420.

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2022

Schedule of Proportionate Share of the Net Pension Liability PERS 1 As of June 30 Last 10 Fiscal Years*								
	2015	2016	2017	2018	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset) PERS 1	0.025858%	0.026164%	0.026624%	0.026059%	0.024190%	0.023452%	0.023131%	0.021854%
Employer's proportionate share of the net pension liability	\$1,352,614	\$1,405,130	\$1,263,330	\$1,163,804	\$ 930,191	\$ 827,982	\$ 282,484	\$ 608,496
Covered payroll	\$2,736,198	\$2,905,951	\$3,093,465	\$3,261,909	\$3,313,986	\$3,402,789	\$ 3,409,616	\$ 3,367,386
Employer's proportionate share of the net pension liability as a percentage of covered employee	49.43%	48.35%	40.84%	35.68%	28.07%	24.33%	8.28%	18.07%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%	88.74%	76.56%

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 As of June 30 Last 10 Fiscal Years*								
	2015	2016	2017	2018	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset) PERS 2/3	0.028787%	0.028859%	0.029743%	0.028812%	0.029220%	0.028378%	0.027744%	0.027744%
Employer's proportionate share of the net pension liability (asset)	\$1,028,576	\$1,453,028	\$1,033,427	\$ 491,939	\$ 283,826	\$ 362,938	\$(2,763,749)	\$ (981,343)
Covered payroll	\$2,554,319	\$2,716,839	\$2,905,619	\$3,124,656	\$3,224,675	\$3,313,478	\$ 3,318,277	\$ 3,277,367
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee	40.27%	53.48%	35.57%	15.74%	8.80%	10.95%	-83.29%	-29.94%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%	120.29%	106.73%

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

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2022

Schedule of Employer Contributions PERS 1 As of December 31 Last 10 Fiscal Years*								
	2015	2016	2017	2018	2019	2020	2021	2022
Statutorily or contractually required contributions	\$ 79,968	\$ 154,838	\$ 165,931	\$ 175,162	\$ 171,716	\$ 174,447	\$ 151,921	\$ 140,171
Contributions in relation to the statutorily or contractually required contributions	\$ (79,968)	\$ (154,838)	\$ (165,931)	\$ (175,162)	\$ (171,716)	\$ (174,447)	\$ (151,921)	\$ (140,171)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$2,811,781	\$2,997,403	\$3,093,465	\$3,261,909	\$3,313,986	\$3,585,633	\$ 3,309,554	\$ 3,554,492
Contributions as a percentage of covered employee payroll	2.84%	5.17%	5.36%	5.37%	5.18%	4.87%	4.59%	3.94%

Schedule of Employer Contributions PERS 2/3 As of December 31 Last 10 Fiscal Years*								
	2015	2016	2017	2018	2019	2020	2021	2022
Statutorily or contractually required contributions	\$ 197,296	\$ 174,877	\$ 198,315	\$ 234,270	\$ 247,921	\$ 281,171	\$ 234,035	\$ 219,067
Contributions in relation to the statutorily or contractually required contributions	\$ (197,296)	\$ (174,877)	\$ (198,315)	\$ (234,270)	\$ (247,921)	\$ (281,171)	\$ (234,035)	\$ (219,067)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$2,626,286	\$2,807,009	\$2,905,619	\$3,124,656	\$3,224,675	\$3,495,904	\$ 3,217,925	\$ 3,444,469
Contributions as a percentage of covered employee payroll	7.51%	6.23%	6.83%	7.50%	7.69%	8.04%	7.27%	6.36%

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

SOOS CREEK WATER AND SEWER DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION December 31, 2022

Schedule of Changes in Total OPEB Liability and Related Ratios					
	2018	2019	2020	2021	2022
Total OPEB Liability					
Service cost	\$ 90,891	\$ 77,153	\$ 82,576	\$ 122,591	\$ 112,761
Interest	73,541	79,861	74,596	62,486	53,788
Changes in benefit terms	-	-	-	-	-
Change in experience data and assumptions*	(113,029)	(43,829)	550,678	(465,527)	(323,321)
Benefit payments	(7,289)	(49,716)	(51,984)	(51,401)	(42,430)
Other	-	-	-	-	-
Net Changes in Total OPEB Liability	44,114	63,469	655,866	(331,851)	(199,202)
Total OPEB Liability- Beginning	\$1,966,935	\$2,011,049	\$2,074,518	\$2,730,384	\$2,398,533
Total OPEB Liability- Ending	\$2,011,049	\$2,074,518	\$2,730,384	\$2,398,533	\$2,199,331
Covered payroll	\$3,345,558	\$3,406,573	\$3,545,965	\$3,533,965	\$3,558,950
Total OPEB liability as a percentage of covered-employee payroll	60.11%	60.90%	77.00%	67.87%	61.80%

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

Source: Washington State Office of the State Actuary

Notes to Required Supplementary Information

The Public Employees' Benefits Board OPEB plan does not have assets in trust or equivalent arrangements and is funded on a pay-as-you-go basis.

Potential factors that may significantly affect trends in the amount reported include changes to the discount rate, health care trend rates, salary projections, and participation changes.

Additional information related to the State of Washington multiple employer administered pension plans and other post-employment benefits are presented in the State of Washington Annual Comprehensive Financial Report and may be obtained at <https://ofm.wa.gov/accounting/financial-audit-reports/annual-comprehensive-financial-report>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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