



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Douglas County Sewer District No. 1

For the period January 1, 2022 through December 31, 2023

Published March 24, 2025

Report No. 1036809



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

March 24, 2025

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

Report on Financial Statements

Please find attached our report on Douglas County Sewer District No. 1'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

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Douglas County Sewer District No. 1 January 1, 2022 through December 31, 2023

This schedule presents the status of findings reported in prior audit periods.

Audit Period: 2019-2021	Report Ref. No.: 1032839	Finding Ref. No.: 2021-001				
Finding Caption: The District did not have adequate internal controls over financial statement preparation to ensure accurate financial reporting.						
Background: The District received about \$2 million in grant revenue both in 2020 and 2021 from the Washington State Department of Commerce for the Wenatchi Landing Sewer Extension project. Our audit found the District did not have effective internal controls in place to ensure the grant revenues were accrued in the same period as the expenses, which is required under GAAP. The District reported \$2 million in grant revenue in 2021. However, about \$1.6 million was reimbursements for expenses incurred in 2020 and should have been reported in 2020. The District corrected this error. We recommend the District improve the effectiveness of its internal controls over preparing the financial statements to ensure it reports all grant revenue received as a reimbursement in the same period as the reimbursed expenses.						
Status of Corrective Action: (check one) <table border="0"><tr><td><input type="checkbox"/> Fully Corrected</td><td><input type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input checked="" type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input checked="" type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input checked="" type="checkbox"/> Finding is considered no longer valid			
Corrective Action Taken: <i>The District hasn't been the recipient of any grant funds since the amounts received in the prior audit. Any future grant funds will be reported in the period the expenses were accrued.</i>						

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*

Douglas County Sewer District No. 1 January 1, 2022 through December 31, 2023

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, 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 Douglas County Sewer District No. 1, as of and for the years ended December 31, 2023 and 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 March 5, 2025.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

March 5, 2025

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Douglas County Sewer District No. 1 January 1, 2022 through December 31, 2023

Board of Commissioners
Douglas County Sewer District No. 1
East Wenatchee, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of Douglas County Sewer District No. 1, as of and for the years ended December 31, 2023 and 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 Douglas County Sewer District No. 1, as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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


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

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2025 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

March 5, 2025

FINANCIAL SECTION

Douglas County Sewer District No. 1 January 1, 2022 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023
Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023
Statement of Net Position – 2022
Statement of Revenues, Expenses and Changes in Fund Net Position – 2023
Statement of Revenues, Expenses and Changes in Fund Net Position – 2022
Statement of Cash Flows – 2023
Statement of Cash Flows – 2022
Notes to Financial Statements – 2023
Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2023
and 2022
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2023 and 2022

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

The Mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

The following statements report the net position of the District, and changes to them. Analysis of the District's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the financial health of the District is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

DISCUSSION OF BASIC FINANCIAL STATEMENTS

The District's basic financial statements consist of the following:

- 1 Management's Discussion and Analysis
- 2 Financial Statements
- 3 Notes to Financial Statements
- 4 Required Supplemental Schedules

The District is a single enterprise fund providing wastewater collection and treatment services. The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies, reflecting short- and long-term financial information about its activities.

The financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Fund Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position provides a record, or snap shot, of the assets and deferred outflows; and liabilities and deferred inflows of the District at the close of the year. It provides information about the nature and amounts invested in resources (assets) and the obligations to District creditors (liabilities), and provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility, of the District.

The Statement of Revenues, Expenses and Changes in Net Fund Position presents the results of business activities over the course of the year. The information is used to determine whether the District has successfully recovered all of the costs through its user fees and charges, profitability and credit worthiness.

The Cash Flow Statement reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash was generated and what is was used for.

The Notes to the Financial Statements and Required Supplemental Schedules provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies and subsequent events.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2023	12/31/2022	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 18,734,662	\$ 16,985,814	\$ 1,748,849	10.30%
CAPITAL ASSETS, NET	49,331,711	47,318,069	2,013,643	4.26%
DEFERRED OUTFLOWS	269,250	292,260	(23,010)	-7.87%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>68,335,623</u>	<u>64,596,142</u>	<u>3,739,481</u>	<u>5.79%</u>
TOTAL LIABILITIES	8,459,715	9,887,634	(1,427,919)	-14.44%
DEFERRED INFLOWS	209,928	306,886	(96,958)	-31.59%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>8,669,643</u>	<u>10,194,520</u>	<u>(1,524,877)</u>	<u>-14.96%</u>
NET INVESTMENT IN CAPITAL ASSETS	41,859,041	38,364,740	3,494,301	9.11%
RESTRICTED	2,606,346	2,570,586	35,760	1.39%
UNRESTRICTED	15,200,593	13,466,296	1,734,297	12.88%
TOTAL NET POSITION	<u>\$ 59,665,980</u>	<u>\$ 54,401,622</u>	<u>\$ 5,264,358</u>	<u>9.68%</u>

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

	12/31/2023	12/31/2022	Difference	Percentage of
OPERATING REVENUE	\$ 7,377,472	\$ 6,579,658	\$ 797,814	12.13%
NON-OPERATING REVENUE	126,269	77,044	49,225	63.89%
ULID ASSESSMENTS				
GAIN (LOSS) ON INVESTMENTS REALIZED				
GAIN (LOSS) ON CAPITAL ASSET DISPOSITION				
INTEREST EARNED	842,686	258,965	583,721	225.41%
TOTAL REVENUE	<u>8,346,427</u>	<u>6,915,667</u>	<u>1,430,760</u>	<u>20.69%</u>
PLANT OPERATIONS	3,065,233	2,747,093	318,140	11.58%
MAINTENANCE	291,319	138,835	152,484	109.83%
DEPRECIATION	1,693,285	1,602,840	90,445	5.64%
INTEREST EXPENSES	235,999	284,455	(48,457)	-17.03%
TOTAL EXPENSES	<u>5,285,837</u>	<u>4,773,224</u>	<u>512,612</u>	<u>10.74%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	3,060,590	2,142,443	918,147	42.86%
CAPITAL CONTRIBUTIONS	2,203,765	712,500	1,491,265	209.30%
CHANGE IN NET POSITION	<u>5,264,355</u>	<u>2,854,942</u>	<u>2,409,413</u>	<u>84.39%</u>
BEGINNING NET POSITION	54,401,624	51,546,682	2,854,942	5.54%
ENDING NET POSITION	<u>\$ 59,665,979</u>	<u>\$ 54,401,624</u>	<u>\$ 5,264,355</u>	<u>9.68%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to strengthen over the year ended December 31, 2023.

Total assets and deferred outflows increased by \$3,739,481 or 5.79% (\$68,335,623 for 2023 vs. \$64,596,142 for 2022). Net Capital Assets increased by \$2,013,643 or 4.26% (\$49,331,711 for 2023 vs. \$47,318,069 for 2022) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$5,264,358 or 9.68% (\$59,665,980 for 2023 vs. \$54,401,622 for 2022). This increase is largely due to an increase in cash reserves and completion of capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$1,524,877 or -14.96% (\$8,669,643 for 2023 vs. \$10,194,520 for 2022). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues increased by \$797,817 or 12.13% (\$7,377,475 for 2023 vs. \$6,579,658 for 2022). The sewer service component of operating revenues increased by 5.5% (\$314,365) over 2022. The connection fee component of operating revenues increased by 57.75% (\$478,038) over 2022. The increase is largely due to connection to the District system for Building #2 of 5 planned buildings of a large industrial customer. Buildings 3 through 5 expansion is estimated to be 1 additional building per year with an average connection fee amount of \$275,400 per building. At build-out, the District will realize an estimated \$91,000 of service revenue calculated at current rates. The number of connections to the sewer system increased 22.94% (134 for 2023 vs. 109 for 2022), largely due to completion of a number of high-density and multi-unit developments in 2023.

Operating expenses increased by \$561,069 or 12.5% (\$5,049,838 for 2023 vs. \$4,488,769 for 2022), comprised of increased costs for treatment chemicals, lift station maintenance and repair, electrical utility, and wages and benefits.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as

	NET CAPITAL ASSETS			
	12/31/2023	12/31/2022	Difference	Percentage of Change
NET CAPITAL ASSETS:				
WATER RIGHTS	\$ 6,143	\$ 6,143	\$ -	0.00%
LAND	69,588	69,588	-	0.00%
COLLECTION SYSTEM	31,918,855	29,827,451	2,091,404	7.01%
PLANT BUILDINGS & STRUCTURES	15,945,604	16,508,521	(562,917)	-3.41%
MACHINERY & EQUIPMENT	703,671	664,177	39,494	5.95%
CONSTRUCTION IN PROGRESS	687,850	242,188	445,662	184.01%
TOTAL CAPITAL ASSETS, NET	<u>\$ 49,331,711</u>	<u>\$ 47,318,069</u>	<u>\$ 2,013,643</u>	<u>4.26%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

Major additions for 2023 include:

Developer Contributed Line	\$ 2,203,765
WWTP Storage Structure and Security Gate / Cameras	74,454
WWTP Operations Building Bathroom/Locker Room Remodel	323,391
Simon Street Sewer Replacement	261,841
Control Systems Upgrades for Lift Stations (8)	58,225
2 Davit Cranes - Design, Parts & Assembly	48,495
Cartegraph Asset Management / GIS Implementation	32,217
GIS Arrow Gold Unit	9,501
Mary Avenue Canal Crossing	30,830
Kentucky View Lift Station Phase II - Retainage	71,813
SCADA Computer Upgrade, CMMS Integration	13,131
2021 Ford F450 Chassis	60,408
Total	<u>\$ 3,188,070</u>

The District's 2023 Capital Budget plans for investment of **\$6,029,147**. Major projects are listed below:

Collection System

Lexington to Lawler Avenue Sewer Line Replacement	\$ 410,000
Summerplace Lift Station Replacement - Design & Planning	3,501,053
SR28 Interceptor Planning - WSDOT	432,640
3 Lift Station Safety & Electrical Improvements	121,680
Grant & Nile Intersection and stub to North	122,625
KVLS Rock Sump & Manhole Addition	70,000
GIS Mapping	36,400
	<u>\$ 4,694,398</u>

Treatment Plant

Engineering Report	\$ 208,000
WWTP SNDR Tower Refurbishment	350,000
WWTP Operations Building Bathroom/Locker Room Remodel	11,549
SCADA Computer Upgrade, CMMS Integration	120,000
Primary Electrical Switchgear Replacement	216,320
Crawler Camera	90,000
Secondary Site Access to Headworks Bldg., Reroute North Feed Main	147,680
HVAC Systems for Lift Stations (7) and Sludge Pump Building	67,000
	<u>\$ 1,210,549</u>

As of December 31, 2023, the District has the following principal debt balances:

Revenue Bonds	\$ 5,870,000
CERB Loan	946,267
	<u>\$ 6,816,267</u>

In all, debt principal totals \$6,816,267. Debt repayment schedules go out to 2041. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

Refer to the **Notes to the Financial Statements** for more detail.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District was the recipient of a \$4,000,000 grant from the Washington State Capital Budget as of July 1, 2019. Grant funds paid to extend sewer service to an undeveloped area to support economic growth in the region. The Wenatchi Landing Sewer Extension Project was substantially complete and placed into service by the end of 2020. Remaining funds of approximately \$150,000 were utilized to secure easements for a location for a lift station to serve a portion of the Wenatchi Landing area.

The District secured a Community Economic Revitalization Board loan and grant combination to replace the Batterman Lift Station to serve expanding businesses in the industrial area near the Pangborn Memorial Airport. The loan amount is \$1,020,000. The grant amount of \$159,105 was utilized in full. Payments on the 2% loan with a 20-year term began in 2022.

The District completed a formal rate study in 2023 with a 9-year future rate escalation recommendation for sewer utility service rates. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. General Facilities Charges were increased by an inflationary factor of 4% per Equivalent Residential Unit effective January 1, 2024.

Construction of new housing developments has softened as prices and interest rates rise. However, the District anticipates continued strong connection fee revenue in 2024 due to a very tight housing market, and a local rental vacancy rate of approximately 5%. Active Developer Extension Agreements currently provide approximately 365 lots or units for mostly multi-family residential development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for multiple multi-unit developments that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 8 years will provide strong future revenues for the District.

Growth in connection fee revenue for 2023 was budgeted for a conservative .75% growth rate, equating to 82 permits totaling \$490,196. Actual activity resulted in 134 permits totaling \$1,306,002 from predominately single-family residential development, multi-unit residential development (4 permits totaling \$384,777 for approximately 113 units), and phase 2 of 5 connections of a portion of a new data center development (\$400,915).

As the District treatment plant and collection system infrastructure continue to age and wear, and operation and capital costs continue to rise due to inflation and product and materials availability, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update anticipated to begin in 2024.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd with mechanical and capital treatment plant upgrades. Current treatment volume is 1.45 mgd; 48% of the newly-rated capacity.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2023

the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2022

The Mission of the Board of Commissioners and the Employees of the Douglas County Sewer District is to provide efficient, effective and timely wastewater collection and treatment and excellent customer service while effectively managing the District's infrastructure in order to maintain a reliable wastewater collection and treatment system for today's, as well as tomorrow's, customers.

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DISCUSSION OF BASIC FINANCIAL STATEMENTS

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- 2 Financial Statements
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The Notes to the Financial Statements and Required Supplemental Schedules provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies and subsequent events.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2022

CONDENSED STATEMENT OF NET POSITION AT DECEMBER 31

	12/31/2022	12/31/2021	Difference	Percentage of Change
CURRENT AND OTHER ASSETS	\$ 16,985,814	\$ 16,293,067	\$ 692,747	4.25%
CAPITAL ASSETS, NET	\$ 47,318,069	\$ 47,091,512	\$ 226,557	0.48%
DEFERRED OUTFLOWS	\$ 292,260	\$ 104,876	\$ 187,384	178.67%
TOTAL ASSETS & DEFERRED OUTFLOWS	<u>\$ 64,596,142</u>	<u>\$ 63,489,455</u>	<u>\$ 1,106,687</u>	<u>1.74%</u>
TOTAL LIABILITIES	\$ 9,887,634	\$ 11,189,963	\$ (1,302,329)	-11.64%
DEFERRED INFLOWS	\$ 306,886	\$ 752,812	\$ (445,926)	-59.23%
TOTAL LIABILITIES & DEFERRED INFLOWS	<u>\$ 10,194,520</u>	<u>\$ 11,942,775</u>	<u>\$ (1,748,255)</u>	<u>-14.64%</u>
NET INVESTMENT IN CAPITAL ASSETS	\$ 38,364,740	\$ 37,482,803	\$ 881,937	2.35%
RESTRICTED	\$ 2,570,586	\$ 2,973,388	\$ (402,802)	-13.55%
UNRESTRICTED	\$ 13,466,296	\$ 11,090,489	\$ 2,375,807	21.42%
TOTAL NET POSITION	<u>\$ 54,401,622</u>	<u>\$ 51,546,680</u>	<u>\$ 2,854,942</u>	<u>5.54%</u>

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

	12/31/2022	12/31/2021	Difference	Percentage of
OPERATING REVENUE	\$ 6,579,658	\$ 6,923,605	\$ (343,947)	-4.97%
NON-OPERATING REVENUE	\$ 77,044	\$ 354,940	\$ (277,897)	-78.29%
ULID ASSESSMENTS				
GAIN (LOSS) ON INVESTMENTS REALIZED				
GAIN (LOSS) ON CAPITAL ASSET DISPOSITION				
INTEREST EARNED	\$ 258,965	\$ 16,694	\$ 242,271	1451.25%
TOTAL REVENUE	<u>\$ 6,915,667</u>	<u>\$ 7,295,239</u>	<u>\$ (379,572)</u>	<u>-5.20%</u>
PLANT OPERATIONS	\$ 2,747,093	\$ 2,295,304	\$ 451,790	19.68%
MAINTENANCE	\$ 138,835	\$ 111,327	\$ 27,509	24.71%
DEPRECIATION	\$ 1,602,840	\$ 1,574,588	\$ 28,252	1.79%
INTEREST EXPENSES	\$ 284,455	\$ 331,023	\$ (46,567)	-14.07%
TOTAL EXPENSES	<u>\$ 4,773,224</u>	<u>\$ 4,312,241</u>	<u>\$ 460,983</u>	<u>10.69%</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	\$ 2,142,443	\$ 2,982,998	\$ (840,556)	-28.18%
CAPITAL CONTRIBUTIONS	\$ 712,500	\$ 1,919,187	\$ (1,206,687)	-62.87%
CHANGE IN NET POSITION	\$ 2,854,942	\$ 4,902,185	\$ (2,047,243)	-41.76%
BEGINNING NET POSITION	\$ 51,546,682	\$ 46,644,497	\$ 4,902,185	10.51%
APPLICATION OF NEW ACCOUNTING-GASB	\$ -	\$ -	\$ -	
ENDING NET POSITION	<u>\$ 54,401,625</u>	<u>\$ 51,546,682</u>	<u>\$ 2,854,942</u>	<u>5.54%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2022

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULT OF OPERATIONS

The District's financial position continues to strengthen over the year ended December 31, 2021.

Total assets and deferred outflows increased by \$1,106,687 or 1.74% (\$64,596,142 for 2022 vs. \$63,489,455 for 2021). Net Capital Assets increased by \$226,557 or .48% (\$47,318,069 for 2022 vs. \$47,091,512 for 2021) including land, plant and buildings, collections system, vehicles and construction in progress.

Total net position increased by \$2,854,942 or 5.54% (\$54,401,622 for 2022 vs. \$51,546,680 for 2021). This increase is largely due to an increase in cash reserves and completion of capital projects, as well as a decrease in long-term debt through scheduled debt service payments.

Total liabilities and deferred inflows decreased by \$1,748,255 or -14.64% (\$10,194,520 for 2022 vs. \$11,942,775 for 2021). This is largely due to a decrease in long-term debt through scheduled debt service payments.

Operating revenues decreased by \$343,947 or -4.97% (\$6,579,658 for 2022 vs. \$6,923,605 for 2021). The sewer service component of operating revenues increased by 9.04% (\$474,714) over 2021. The connection fee component of operating revenues decreased by 50.58% (\$847,596) over 2021 largely due to large industrial customer connection permits receipted in 2020 for the 1st of 5 planned buildings. Buildings 2 through 5 expansion is estimated to be 1 additional building per year with an average connection fee amount of \$275,400 per building. At build-out, the District will realize an estimated \$91,000 of service revenue calculated at current rates. New connections to the sewer system decreased 42.33% (109 for 2022 vs. 189 for 2021), largely due to completion of a number of high-density and multi-unit developments in 2021.

Operating expenses increased by \$549,121 or 13.93% (\$4,488,769 for 2022 vs. \$3,939,647 for 2021), comprised of increased costs for treatment chemicals, lift station maintenance and repair, and state business and occupation taxes.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

The following table summarized the District's capital assets, net of accumulated depreciation for the years ended as

	NET CAPITAL ASSETS			
	12/31/2022	12/31/2021	Difference	Percentage of Change
NET CAPITAL ASSETS:				
WATER RIGHTS	\$ 6,143	\$ 6,143	\$ -	0.00%
LAND	\$ 69,588	\$ 69,588	\$ -	0.00%
COLLECTION SYSTEM	\$ 29,827,451	\$ 29,576,636	\$ 250,816	0.85%
PLANT BUILDINGS & STRUCTURES	\$ 16,508,521	\$ 16,650,089	\$ (141,569)	-0.85%
MACHINERY & EQUIPMENT	\$ 664,177	\$ 576,286	\$ 87,891	15.25%
CONSTRUCTION IN PROGRESS	\$ 242,188	\$ 212,770	\$ 29,418	13.83%
TOTAL CAPITAL ASSETS, NET	<u>\$ 47,318,069</u>	<u>\$ 47,091,512</u>	<u>\$ 226,557</u>	<u>0.48%</u>

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2022

Major additions for 2022 include:

Developer Contributed Line	\$ 712,500
WWTP Storage Shed & Improvements	\$ 828,997
Wenatchi Landing Phase II Planning	\$ 56,063
2020 Ford Explorer	\$ 40,442
2022 Ford Ranger	\$ 40,776
SCADA - Historian/FIRST/Win911 - Industrial Software	\$ 35,608
SL Rat Camera System	\$ 28,610
Hamilton Street Improvements	\$ 28,820
Verisight Pro 200' Push Camera	\$ 10,328
Kentucky View Lift Station	\$ 6,601
2 ACRLD200 w/Acrustat Sftwr, 1 ACRLD1000	\$ 5,793
Radar Gauge w/ conversion kit	\$ 5,441
Total	<u>\$ 1,799,979</u>

The District's 2023 Capital Budget plans for investment of **\$2,424,974**. Major projects are listed below:

Collection System

Lexington to Lawler Avenue Sewer Line Replacement	\$ 410,000
Summerplace Lift Station Replacement - Design & Planning	\$ 446,000
SR28 Interceptor Planning - WSDOT	\$ 106,000
3 Lift Station Safety & Electrical Improvements	\$ 87,000
KVLS II Retainage	\$ 71,813
KVLS Rock Sump & Manhole Addition	\$ 70,000
	<u>\$ 1,190,813</u>

Treatment Plant

WWTP Storage Structure and Security Gate / Cameras	\$ 61,780
WWTP SNDR Tower Refurbishment	\$ 350,000
WWTP Operations Building Bathroom/Locker Room Remodel	\$ 220,000
SCADA Computer Upgrade, CMMS Integration	\$ 120,000
Primary Electrical Switchgear Replacement	\$ 104,000
Crawler Camera	\$ 90,000
Cartegraph Asset Management / GIS Implementation	\$ 32,195
GIS Trimble Unit	\$ 20,000
	<u>\$ 997,975</u>

As of December 31, 2022, the District has the following principal debt balances:

Revenue Bonds	\$ 7,165,000
CERB Loan	\$ 989,593
	<u>\$ 8,154,593</u>

This excludes the pass-through PWTF loans for the Douglas County Port District in the amount of \$81,855. In all, debt principal totals \$8,236,448. Debt repayment schedules go out to 2041. The decrease over the prior year is due to continued, scheduled payments on long-term debt.

Refer to the **Notes to the Financial Statements** for more detail.

Douglas County Sewer District No. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2022

OTHER POTENTIALLY SIGNIFICANT MATTERS

The District was the recipient of a \$4,000,000 grant from the Washington State Capital Budget as of July 1, 2019. Grant funds paid to extend sewer service to an undeveloped area to support economic growth in the region. The Wenatchi Landing Sewer Extension Project was substantially complete and placed into service by the end of 2020. Remaining funds of approximately \$150,000 will be utilized to secure a location for a lift station to serve a portion of the Wenatchi Landing area. Availability of the funds sunsets on June 30, 2023.

The District secured a Community Economic Revitalization Board loan and grant combination to replace the Batterman Lift Station to serve expanding businesses in the industrial area near the Pangborn Memorial Airport. The loan amount is \$1,020,000. The grant amount of \$159,105 was utilized in full. Payments on the 2% loan with a 20-year term began in 2022.

The District completed a formal rate study in 2015 with a 6-year future rate recommendation. Objectives of the study were to plan for anticipated capital needs, evaluate multiple bond coverage scenarios to determine an appropriate balance between protecting its bond rating through sufficient debt service coverage and maintaining affordable sewer service rates, and update the General Facilities Charges/Connection Fees for connection to the system. Partially due to implementation of study recommendations, cash reserves of the District have increased 46%, or \$5,020,781, since 2016. The District has contracted for another rate study to be conducted in 2023.

Construction of new housing developments is strong locally, and the District anticipates continued strong connection fee revenue in 2023 due to a very tight, high-demand housing market, and a local rental vacancy rate of less than 2%. Active Developer Extension Agreements currently provide approximately 303 lots for residential, mostly single-family, development. Construction of multi-unit developments is becoming more common to meet the demand, with plans for multiple multi-unit developments that will be served by the District.

The District is experiencing strong commercial / industrial connection fee revenue as local industrial areas develop. In particular, data centers are locating and expanding facilities here due to regionally low electric power rates. Construction of planned data center expansion over the next 10 years will provide strong future revenues for the District.

Growth in connection fee revenue for 2022 was budgeted for a conservative .75% growth rate, equating to 76 permits totaling \$417,848. Actual activity resulted in 109 permits totaling \$827,964 from mostly single-family residential development and connection of a portion of a new data center development.

As the District treatment plant and collection system infrastructure continue to age and wear, and operation and capital costs continue to rise due to inflation and product and materials availability, the District anticipates increased costs of plant and line maintenance and/or replacement in the future. System condition and analysis is continuing as part of the on-going General Sewer Plan Update anticipated to begin soon.

An engineering study was recently completed to assess Wastewater Treatment Plant capacity. Based on the results of the study, the Department of Ecology increased the loadings rating of the plant from 2.6 million gallons per day (mgd) to 3.0 mgd. Current treatment volume is 1.45 mgd; 48% of the newly-rated capacity.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Officer at the Douglas County Sewer District, 692 Eastmont Avenue, East Wenatchee, WA 98802.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2023**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	281,738
Investments		15,367,850
Receivables (Net):		
Service and Grant Revenue		321,325
Restricted Assets:		
Bond Debt Service		1,796,792
Construction II		134,533
Prepayments		157,404
TOTAL CURRENT ASSETS		<u>18,059,641</u>

Noncurrent Assets:

Restricted Assets:		
Bond Debt Service Reserve		352,824
Capital Assets Not Being Depreciated		
Water Rights		6,143
Land		69,588
Construction in Progress		687,850
Capital Assets Being Depreciated		
Plant		31,525,880
Collection System		39,978,275
Machinery & Equipment		1,712,878
Less Accumulated Depreciation		(24,648,903)
Total Capital Assets (Net)		<u>49,331,711</u>

Net Pension Asset		322,197
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TOTAL NONCURRENT ASSETS		<u>50,006,732</u>
TOTAL ASSETS	\$	<u><u>68,066,373</u></u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension		269,250
TOTAL DEFERRED OUTFLOWS OF RESOURCES		<u><u>269,250</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2023**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$	335,789
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		1,394,193
Accrued Interest		117,427
Developer Extension Deposits		36,000
TOTAL CURRENT LIABILITIES		<u>1,883,408</u>

Noncurrent Liabilities:

Compensated Absences		358,857
CERB Loan Payable		902,075
Payables from Restricted Assets:		
Bonds, Notes and Loans Payable		5,176,403
Pension Liability		138,973
TOTAL NONCURRENT LIABILITIES		<u>6,576,307</u>
TOTAL LIABILITIES	\$	<u><u>8,459,715</u></u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension		209,928
TOTAL DEFERRED INFLOWS OF RESOURCES		<u><u>209,928</u></u>

NET POSITION

Net Investment in Capital Assets	\$	41,859,041
Restricted - Pensions		322,197
Restricted - Bond		1,796,792
Restricted - Bond Reserve		352,824
Restricted - Construction II		134,533
Unrestricted		15,200,593
TOTAL NET POSITION	\$	<u>59,665,980</u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2022**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	269,990
Investments		13,468,311
Receivables (Net):		
Service and Grant Revenue		447,678
Restricted Assets:		
Bond Debt Service		1,818,398
Construction II		128,178
Prepayments		147,395
TOTAL CURRENT ASSETS		16,279,949

Noncurrent Assets:

Restricted Assets:		
Bond Debt Service Reserve		352,824
Loan Receivable - Port District PWTF		81,854
Capital Assets Not Being Depreciated		
Water Rights		6,143
Land		69,588
Construction in Progress		242,188
Capital Assets Being Depreciated		
Plant		31,101,024
Collection System		37,321,351
Machinery & Equipment		1,617,882
Less Accumulated Depreciation		(23,040,108)
Total Capital Assets (Net)		47,318,069
Net Pension Asset		271,186
TOTAL NONCURRENT ASSETS		48,023,933
TOTAL ASSETS		\$ 64,303,882

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension		292,260
TOTAL DEFERRED OUTFLOWS OF RESOURCES		292,260

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

**STATEMENT OF NET POSITION
December 31, 2022**

LIABILITIES

Current Liabilities:

Accounts/Vouchers Payable	\$ 256,354
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	1,420,181
Accrued Interest	142,495
Developer Extension Deposits	50,000
TOTAL CURRENT LIABILITIES	1,869,030

Noncurrent Liabilities:

Compensated Absences	328,976
CERB Loan Payable	946,267
Payables from Restricted Assets:	
Bonds, Notes and Loans Payable	6,586,881
Pension Liability	156,481
TOTAL NONCURRENT LIABILITIES	8,018,605
TOTAL LIABILITIES	9,887,634

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	306,886
TOTAL DEFERRED INFLOWS OF RESOURCES	306,886

NET POSITION

Net Investment in Capital Assets	38,364,740
Restricted - Pensions	271,186
Restricted - Bond	1,818,398
Restricted - Bond Reserve	352,824
Restricted - Construction II	128,178
Unrestricted	13,466,296
TOTAL NET POSITION	54,401,622

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2023

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 6,060,573
Connection Fees	1,306,002
Other Charges for Services	10,900
Total Operating Revenue	<u>7,377,475</u>

OPERATING EXPENSES:

Operations:

General Operations	1,744,680
Cost of Power	166,216
Maintenance	291,319

Administration:

General Administration	1,004,271
Depreciation and Depletion	1,693,285
Property, Excise and B&O Taxes	150,067
Total Operating Expenses	<u>5,049,838</u>

OPERATING INCOME (LOSS)

<u><u>\$ 2,327,637</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2023

NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 842,686
Interest Expense, Amortization and Related Charges	(235,999)
Other Nonoperating Revenues	
Miscellaneous Income	32,191
Non-Operating Revenue	94,079
Total Nonoperating Revenues (Expenses)	<u>732,956</u>
Income Before Contributions, Transfers and Extraordinary Items	3,060,593
Capital Contributions	2,203,765
CHANGE IN NET POSITION	<u>5,264,358</u>
TOTAL NET POSITION, January 1	54,401,622
TOTAL NET POSITION, December 31	<u><u>\$ 59,665,980</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2022

OPERATING REVENUES:

Utility Sales and Service Fees	\$ 5,744,572
Connection Fees	827,964
Other Charges for Services	<u>7,122</u>
Total Operating Revenue	6,579,658

OPERATING EXPENSES:

Operations:

General Operations	1,524,862
Cost of Power	123,790
Maintenance	138,835

Administration:

General Administration	908,191
Depreciation and Depletion	1,602,840
Property, Excise and B&O Taxes	<u>190,250</u>
Total Operating Expenses	4,488,769

OPERATING INCOME (LOSS)

<u><u>\$ 2,090,890</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District No. 1

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2022

NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 258,965
Interest Expense, Amortization and Related Charges	(284,455)
Other Nonoperating Revenues	
Miscellaneous Income	20,981
Non-Operating Revenue - Grants	56,063
Total Nonoperating Revenues (Expenses)	<u>51,553</u>
Income Before Contributions, Transfers and Extraordinary Items	2,142,443
Capital Contributions	712,500
CHANGE IN NET POSITION	<u>2,854,942</u>
TOTAL NET POSITION, January 1	51,546,680
TOTAL NET POSITION, December 31	<u><u>\$ 54,401,622</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 7,528,937
Payments to Suppliers	(1,664,405)
Payments to Employees	(1,749,308)
Net Cash Provided by Operating Activities	<u>4,115,224</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Long-Term Debt	(1,420,181)
Interest Paid on Long-Term Debt	(321,545)
Purchases of Capital Assets	(1,503,163)
Grants and/or Reimbursements	101,161
Net Cash Used by Capital and Related Financing Activities	<u>(3,143,727)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	842,686
Payments Received on Notes Receivable	81,854
Net Cash Provided by Investing Activities	<u>924,540</u>
 INCREASE IN CASH	 <u><u>1,896,036</u></u>
 BEGINING CASH AND CASH EQUIVALENTS	 15,684,876
 ENDING CASH AND CASH EQUIVALENTS	 <u><u>\$ 17,580,913</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2023

RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income	\$ 2,327,637
Noncash and nonoperating Income	
Other non-operating income	32,191
Noncash and nonoperating expenses	
Depreciation	1,693,285
Change in pension expense	(142,467)
(Increase) decrease in operating assets	
Accounts receivable	119,271
Prepaid expenses	(10,010)
Increase (decrease) in operating liabilities	
Accounts payable	65,435
Compensated absences	29,881
Net cash provided by operating activities	<u>\$ 4,115,224</u>

SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital Assets Contributed by Developers	2,203,765
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The accompanying notes are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 6,618,377
Payments to Suppliers	(1,347,987)
Payments to Employees	(1,608,919)
Net Cash Provided by Operating Activities	<u>3,661,471</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Paid on Long-Term Debt	(1,372,261)
Interest Paid on Long-Term Debt	(372,574)
Purchases of Capital Assets	(1,116,897)
Grant Reimbursements	49,934
Net Cash Used by Capital and Related Financing Activities	<u>(2,811,798)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	258,965
Payments Received on Notes Receivable	81,854
Net Cash Provided by Investing Activities	<u>340,819</u>
 INCREASE IN CASH	 <u><u>1,190,492</u></u>
 BEGINING CASH AND CASH EQUIVALENTS	 14,494,384
 ENDING CASH AND CASH EQUIVALENTS	 <u><u>\$ 15,684,876</u></u>

The accompanying notes are an integral part of this statement.

Douglas County Sewer District
Statement of Cash Flows
For the Year Ended December 31, 2022

RECONCILIATION OF CHANGE IN NET OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Income	\$ 2,090,890
Noncash and nonoperating Income	
Other non-operating income	20,981
Noncash and nonoperating expenses	
Depreciation	1,602,840
Change in pension expense	(119,607)
(Increase) decrease in operating assets	
Accounts receivable	16,675
Prepaid expenses	(19,155)
ULID assessments	1,063
Increase (decrease) in operating liabilities	
Accounts payable	35,159
Compensated absences	32,626
Net cash provided by operating activities	<u><u>\$ 3,661,471</u></u>

SUPPLEMENTAL SCHEDULE OF NON-CASH CAPITAL AND
RELATED FINANCING ACTIVITIES

Capital Assets Contributed by Developers	712,500
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The accompanying notes are an integral part of this statement.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 and operates under the laws of the State of Washington, RCW Chapter 57 and is governed by an elected three member board.

As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

The District's proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows, except for the following exceptions which are not in accordance with general accepted accounting principles (GAAP).

1. ULID assessment interest and penalties are not recorded until funds are received.
2. Utility service is billed bi-monthly. Unbilled utility service receivables for the final month of the year are not recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operations revenues of the Douglas County Sewer District are sewer utility revenue and connection fee revenue. Operating expenses for the district include operations and maintenance, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2023, \$17,651,999 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Bond Debt Service', 'Restricted Assets: Construction II' and 'Restricted Assets: Bond Debt Service Reserve'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

2. Investments - See Note 2 Deposits and Investments

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. District policy is to file liens against a property when sewer service charges are not paid and an amount becomes 60 days past due. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

Special assessments are recorded when levied. Special assessments (ULIDs) receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2023, all special assessment receivable balances have been paid in full.

The District uses the consumption method to account for prepaid expenses.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The Bond Fund balance of \$1,796,792 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position. Specific debt service reserve requirements are described in Note 6 - *Long-Term Debt*.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Restricted component for net position is as follows:

Bond Fund	\$1,796,792
Bond Reserve Fund	352,824
Construction II Fund	134,533
Net Pension Asset	<u>322,197</u>
Totals	\$2,606,346

6. Capital Assets - See Note 3 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical costs when known, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at donor cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

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The costs for normal maintenance and repairs are not capitalized.

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

Property, plant and equipment are depreciated using the straight-line method. Initial depreciation begins in the year subsequent to the year asset is recorded. Assets are depreciated over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

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

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

The District currently recognizes its water rights in the treatment plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets".

7. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

At December 31, 2023, the recorded liability for unpaid vacation benefits was \$145,141; and the recorded liability for sick pay leave benefits was \$213,716.

8. Pensions

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

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

9. Long-Term Debt - See Note 6 Long-Term Debt

10. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues when applicable. Amortization expense for 2023 is \$60,478.

11. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,875 per month or \$22,500 a year. Participants age 50 and older are allowed an additional \$7,500 contribution per year up to a maximum of \$30,000. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2023, 11 of 13 employees participated at a total cost to the District of \$9,900.

12. Deferred Inflows / Outflows of Resources

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The Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This element represents a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The District currently reports an amount related to pensions as deferred outflows of resources. The Statement of Net Position will also sometimes report a separate section for deferred inflows of resources. This element represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. On the Statement of Net Position, the District reports only amounts related to pensions in this category.

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

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Note 2 - Deposits and Investments

The District is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2023, comply with the provisions of that code section and with the District's investment policy adopted by Board Resolution. The District's deposits and investments are managed daily by the District Finance Officer.

A. Deposits

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

Cash on hand at December 31, 2023 was \$281,738. The carrying amount of the District's deposits, managed by the Douglas County Treasurer and invested in the state Local Government Investment Pool, was \$17,651,999 and the County balance invested in the state Local Government Investment Pool was \$17,753,654 net of outstanding items.

B. Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

Investments in Local Government Investment Pool (LGIP)

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

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Investments Measured at Amortized Cost	0
State Local Government Investment Pool (LGIP)	\$ 17,651,999
Total Investments in Statement of Net Position	<u>\$ 17,651,999</u>

Note 3 - Capital Assets

Capital assets activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 69,588			\$ 69,588
Water Rights	6,143			6,143
Construction In Progress	242,188	1,402,653	956,991	687,850
Total Capital Assets Not Being Depreciated	317,920	1,402,653	956,991	763,581
Capital Assets Being Depreciated:				
Plant & Buildings	31,101,024	469,500	44,643	31,525,880
Machinery & Equipment	1,617,883	134,843	39,847	1,712,878
Collection System	37,321,351	2,656,924		39,978,275
Total Capital Assets Being Depreciated	70,040,257	3,261,266	84,490	73,217,033
Less Accumulated Depreciation for:				
Plant & Buildings	14,592,503	1,031,497	43,723	15,580,277
Machinery & Equipment	953,705	95,348	39,847	1,009,207
Collection System	7,493,900	565,520		8,059,420
Total Accumulated Depreciation	23,040,109	1,692,365	83,570	24,648,904
Total Capital Assets Being Depreciated, Net	47,000,148	1,568,901	920	48,568,130
Total Capital Assets, Net	<u>\$ 47,318,068</u>	<u>\$ 2,971,554</u>	<u>\$ 957,911</u>	<u>\$ 49,331,711</u>

The District expensed any impairment losses that may arise. There were no impairment losses to report for 2023.

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Note 4 - Construction and Other Significant Commitments

The District has active construction and other significant projects as of December 31, 2023. The projects include:

Project	Project Authorization	Spent to Date 12/31/23	Remaining Commitment	Required Future Financing	Source of Committed Funding
Summerplace Lift Station Replacement	\$ 446,000	\$ 560,813	\$ -	\$ -	Cash Reserves
Lexington to Lawler Main Replacement	410,000	53,050	356,950	-	Cash Reserves
SNDR Towers Coating Refurbishment	350,000	63,395	286,605	-	Cash Reserves
692 Admin Building	-	3,916	-	-	Cash Reserves
Nile & Grant Intersection	-	6,676	-	-	Cash Reserves
	\$ 1,206,000	\$ 687,850	\$ 643,555	\$ -	

Note 5 - Changes in Long-Term Liabilities

During the year ended December 31, 2023, the following changes occurred in long-term liabilities:

ID #	Description	Maturity / Payment Due Date	Beginning Balance 12/31/22	Additions	Reductions	Ending Balance 12/31/23	Due Within One Year
259	Compensated Absences		\$ 328,976	\$ 29,881		\$ 358,857	varies
264	Pension Liability		156,481		17,508	138,973	n/a
263	2003 PWTF - Port	7/1/2023	81,855		81,855	-	-
252	2006 Bond	8/1/2024	860,000			860,000	860,000
252	2016 Bond	8/1/2035	6,305,000		1,295,000	5,010,000	490,000
263	2021 CERB	1/1/2041	989,593		43,326	946,267	44,193
	Total Long-Term Liabilities		\$ 8,721,904	\$ 29,881	\$ 1,437,689	\$ 7,314,097	\$ 1,394,193

Note 6 - Long-Term Debt

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2023, the District has \$1,796,792 available in a debt service fund to service the 2024 bonded debt. Restricted assets in proprietary funds contain \$2,149,616 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$5,870,000.00 of outstanding balances of sewer revenue bonds issued in 2006 and 2016.

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The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$6,821,475. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,595,644 and \$7,503,744 respectively.

The District had one non-parity, Public Works Trust Fund loan for a 2004 project to extend sewer service to the Pangborn Industrial Service Area. The annual debt service was reimbursed by the Chelan-Douglas Regional Port Authority. The last principal and interest amount of \$82,263.74, which the Chelan-Douglas Regional Port Authority reimbursed in full, retired the debt service of the District.

In 2021, the District secured a CERB loan to finance replacement of the Batterman Lift Station. The loan amount of \$1,020,000 will be paid over a 20-year term, with an annual payment amount of \$63,118.01, ending in 2041.

Direct Placement Revenue Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for the construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt. Direct Placements debt details of the District as of 12/31/2023 as outlined below.

Direct Borrowings – The District receives low-cost loan financing directly from third parties to finance wastewater infrastructure needs. Direct Borrowing details of the District as of 12/31/2023 as outlined below.

A. Direct Placement

	2006 Bond WWTP Upgrade		2016 Refunding Bonds Refund 2008/New Money	
Original Amount	\$8,440,000		\$11,850,000	
Interest Rate	4.20%		2.42%	
Dated	11/15/06		5/23/16	
Maturity	2024		2035	
Year	Principal	Interest	Principal	Interest
2024	\$ 860,000	\$ 36,550	\$ 490,000	\$ 205,819
2025			1,145,000	183,769
2026			1,200,000	132,244
2027			210,000	78,244
2028			215,000	70,894
2029-2033			1,205,000	218,669
2034-2035			545,000	25,288
Totals	\$ 860,000	\$ 36,550	\$ 5,010,000	\$ 914,926

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B. Direct Borrowing

	2021 CERB Loan Batterman Lift Station	
Original Amount	\$1,020,000	
Interest Rate	2.00%	
Dated	10/31/19	
Maturity	2041	
Year	Principal	Interest
2024	\$ 44,193	\$ 18,925
2025	45,077	18,041
2026	45,978	17,140
2027	46,898	16,220
2028	47,836	15,282
2029-2032	253,917	61,673
2034-2038	280,345	35,245
2039-2041	182,025	7,329
Totals	\$ 946,268	\$ 189,856

The annual requirements to amortize all debts outstanding as of December 31, 2023, including interest, are:

Year	Principal	Interest	Total
2024	\$ 1,394,193	\$ 261,294	\$ 1,655,487
2025	1,190,077	201,810	1,391,887
2026	1,245,978	149,384	1,395,362
2027	256,898	94,464	351,362
2028	262,836	86,176	349,012
2029-2033	1,458,917	280,342	1,739,259
2034-2038	825,345	60,533	885,878
2039-2041	182,025	7,329	189,354
Total	\$ 6,816,268	\$ 1,141,332	\$ 7,957,600

Note 7 - Restricted Component of Net Position

The District's Statement of Net Position reports \$2,606,346 of restricted component of net position, of which \$2,149,616 is restricted by bond covenants.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Note 8 - Risk Management

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Douglas County Sewer District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of November 30, 2023, membership includes 196 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, Crime Protection and Liability, including General, Automobile, Wrongful Acts, and Cyber, which are included to fit the member's various needs.

The program acquires reinsurance through their administrator, Clear Risk Solutions. Liability coverage is purchased to an aggregate limit of \$50,000,000 with a self-insured retention (SIR) of \$500,000. Members are responsible for a \$1,000 to \$50,000 deductible for each claim (can vary by member), while the program is responsible for the \$500,000 SIR. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$500,000 SIR, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$8,347,047, which is fully funded in its annual budget.

Property insurance is subject to a per occurrence SIR of \$750,000. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the \$750,000 SIR, in addition to the deductible

Crime insurance is subject to a per occurrence **SIR of \$25,000**. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the **\$25,000 SIR**, in addition to the deductible.

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500 (cities and special districts) and \$500 (fire districts), which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Cyber liability insurance is subject to a per-occurrence **SIR of \$50,000**. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining **\$40,000 SIR**.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

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The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2023, were \$3,172,936.78.**

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

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Note 9 - Pensions Plans

The following table represents the aggregate pension amounts for all plans for the year 2023:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 138,973
Pension assets	322,197
Deferred outflows of resources	269,250
Deferred inflows of resources	209,928
Pension expense	\$ (30,078)

State Sponsored Pension Plans

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

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

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: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

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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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.20 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - June 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
TOTAL	10.39%	6.00%
July - August 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
TOTAL	9.39%	6.00%
September - December 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
TOTAL	9.53%	6.00%

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PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. 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 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. 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. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2 *
January - June 2023:		
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%

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PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2 *
July - August 2023:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
TOTAL	9.39%	6.36%
September - December 2023:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Employee PERS Plan 3		varies
TOTAL	9.53%	6.36%

The District's actual PERS plan contributions were \$39,063 to PERS Plan 1 and \$73,327 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study and the 2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation: 2.75% total economic inflation; 3.25% salary inflation

Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return: 7.00%

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

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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 every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial results reflect the following changes in assumptions and methods since the last valuation:

Method Changes

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR).

Discount Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0 percent was determined using a building-block-method. In selecting this assumption, the 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

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Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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 the Net Pension Liability (Asset)

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

	1% Decrease 6%	Current Discount 7%	1% Increase 8%
PERS 1	194,155	138,973	90,811
PERS 2/3	350,428	(322,197)	(874,802)

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.

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

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

At June 30, 2023, the District reported its proportionate share of the net pension liabilities or assets as follows:

	Liability (or Asset)
PERS 1	\$ 138,973
PERS 2/3	\$ (322,197)

At June 30, 2023, District's proportionate share of the collective net pension liabilities or assets was as follows:

	Proportionate Share 06/30/22	Proportionate Share 06/30/23	Change in Proportionate Share
PERS Plan 1	0.00562%	0.00609%	0.00047%
PERS Plan 2/3	0.00731%	0.00786%	0.00055%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations for all plans*.

Pension Expense

For the year ended December 31, 2023, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 14,573
PERS 2/3	(44,651)
TOTAL	\$ (30,078)

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NOTES TO FINANCIAL STATEMENTS January 1, 2023 through December 31, 2023

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Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (15,677)
Contributions subsequent to the measurement date	16,959	-
TOTAL	\$ 16,959	\$ (15,677)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,631	\$ (3,600)
Net difference between projected and actual investment earnings on pension plan investments	-	(121,423)
Changes of assumptions	135,270	(29,483)
Changes in proportion and differences between contributions and proportionate share of contributions	14,578	(39,745)
Contributions subsequent to the measurement date	36,812	-
TOTAL	\$ 252,291	\$ (194,251)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,631	\$ (3,600)
Net difference between projected and actual investment earnings on pension plan investments	-	(137,100)
Changes of assumptions	135,270	(29,483)
Changes in proportion and differences between contributions and proportionate share of contributions	14,578	(39,745)
Contributions subsequent to the measurement date	53,771	-
TOTAL	\$ 269,250	\$ (209,928)

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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, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2024	\$ (10,666)	\$ (62,775)
2025	(13,413)	(74,947)
2026	8,271	93,639
2027	131	33,804
2028	-	32,455
Thereafter	-	(938)

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The financial statements of Douglas County Sewer District No. 1 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

Douglas County Sewer District no. 1 is a municipal corporation established in 1964 and operates under the laws of the State of Washington, RCW Chapter 57 and is governed by an elected three member board.

As required by the generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Douglas County Sewer District No. 1 has no component units.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

The District's proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of cash flows, except for the following exceptions which are not in accordance with general accepted accounting principles (GAAP).

1. ULID assessment interest and penalties are not recorded until funds are received.
2. Utility service is billed bi-monthly. Unbilled utility service receivables for the final month of the year are not recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operations revenues of the Douglas County Sewer District are sewer utility revenue and connection fee revenue. Operating expenses for the district include operations and maintenance, administrative expenses, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. As of December 31, 2022, \$15,767,711 was invested in the Local Government Investment Pool administered through the Douglas County Treasurer. The amounts are classified on the Statement of Net Position as 'Investments', 'Restricted Assets: Bond Debt Service', 'Restricted Assets: Construction II' and 'Restricted Assets: Bond Debt Service Reserve'.

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

2. Investments - See Note 2 Deposits and Investments

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services. The District policy is to file liens against a property when sewer service charges are not paid and an amount becomes 60 days past due. Consequently, there are no write-offs of uncollectible accounts, nor an allowance for uncollectible receivables.

Special assessments are recorded when levied. Special assessments (ULIDs) receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2022, all special assessment receivable balances have been paid in full.

The District uses the consumption method to account for prepaid expenses.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable. The Bond Fund balance of \$1,818,398 is reserved to pay the current portion of long-term bond debt included in Payables From Restricted Assets - Bonds, Notes and Loans Payable on the Statement of Net Position. Specific debt service reserve requirements are described in Note 6 - *Long-Term Debt*.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Restricted component for net position is as follows:

Bond Fund	\$1,818,398
Bond Reserve Fund	\$352,824
Construction II Fund	\$128,178
Net Pension Asset	\$271,186
Totals	<u>\$2,570,586</u>

6. Capital Assets - See Note 3 Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the District as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical costs when known, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at donor cost.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

The costs for normal maintenance and repairs are not capitalized.

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

Property, plant and equipment are depreciated using the straight-line method. Initial depreciation begins in the year subsequent to the year asset is recorded. Assets are depreciated over the following estimated useful lives:

<u>Asset Category</u>	<u>Years</u>
Sewer Lines	66.67
Buildings & Major Infrastructure	50
Building Improvements	20
Vehicles	10
Equipment	10
Pumps, Computer Hardware/Software, Misc.	3-10

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

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

The District currently recognizes its water rights in the treatment plant as a component of the District's net capital assets, in compliance with GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets".

7. Compensated Absences

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

Vacation pay, which may be accumulated up to 480 hours, is payable upon retirement, death or separation from employment, unless terminated for intentional misconduct as determined by the District.

Sick leave may accumulate indefinitely. Upon retirement, death or separation from employment, accumulated sick leave will be paid up to a maximum of 240 hours, unless terminated for intentional misconduct as determined by the District.

At December 31, 2022, the recorded liability for unpaid vacation benefits was \$129,191; and the recorded liability for sick pay leave benefits was \$199,785.

8. Pensions

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

9. Long-Term Debt - See Note 6 Long-Term Debt

10. Unamortized Debt Expense

In accordance with generally accepted accounting principles for regulated businesses, the District's unamortized bond premiums/discounts relating to the sale of bonds are amortized over the lives of the various bond issues when applicable. Amortization expense for 2022 is \$60,478.

11. Deferred Compensation

The District participates in the Washington State Deferred Compensation Program (DCP), an IRS Section 457(b) defined contribution pension plan, administered by the Washington State Department of Retirement Systems.

The minimum monthly contribution is \$30 or 1% of pretax income up to a maximum of \$1,875 per month or \$22,500 a year. Participants age 50 and older are allowed an additional \$7,500 contribution per year up to a maximum of \$30,000. Special Catch-up and Deferral limits may be allowed under certain criteria. Withdrawal eligibility begins upon separation from DCP-covered employment, with no tax penalties or age requirements. A one-time, voluntary in-service withdrawal is allowed in the event that the account value does not exceed \$5,000 and contributions have been suspended for 2 years or longer. Internal Revenue Service Code 401(a)(9) requires that, unless you are still actively employed, beginning at age 70 1/2, your payments must be an amount that will exhaust your entire account balance with your projected life expectancy as determined by taking the prior year's December 31 account balance and dividing by an estimated distribution period. Payment options include whole or partial lump sum, periodic payment amounts and an annuity purchase. In the event of the participant's death, designated beneficiaries can choose from a number of withdrawal options to receive benefits from the DCP account.

The Dept. of Retirement Systems is authorized to interpret the provisions of the plan to the extent that they are not inconsistent with state and federal law. The Department has the authority to decide all issues concerning the rights of participants and beneficiaries under the plan.

The District provides a dollar match of up to \$75 a month to its full time employees. In 2022, 11 of 13 employees participated at a total cost to the District of \$9,525.

12. Deferred Inflows / Outflows of Resources

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

The Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This element represents a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The District currently reports an amount related to pensions as deferred outflows of resources. The Statement of Net Position will also sometimes report a separate section for deferred inflows of resources. This element represents an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until then. On the Statement of Net Position, the District reports only amounts related to pensions in this category.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Note 2 - Deposits and Investments

The District is legally authorized to invest in the types of investments included in the Revised Code of Washington (RCW) 36.29.020. All of the investments and deposits held at December 31, 2022, comply with the provisions of that code section and with the District's investment policy adopted by Board Resolution. The District's deposits and investments are managed daily by the District Finance Officer.

A. Deposits

The District's deposits and any certificates of deposit are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). The District's treasurer is the Douglas County Treasurer and all cash funds are controlled and invested by that office, with the exception of a FDIC covered account utilized to receive and temporarily hold ACH and credit card payments.

Cash on hand at December 31, 2022 was \$269,990. The carrying amount of the District's deposits, managed by the Douglas County Treasurer and invested in the state Local Government Investment Pool, was \$15,767,711 and the County balance invested in the state Local Government Investment Pool was \$15,671,972 net of outstanding items.

B. Investments

All investments of District funds are in the Local Government Investment Pool utilized through the Douglas County Treasurer or in U.S. Treasury securities with U.S. Bank purchased through the Douglas County Treasurer's Office in conjunction with Time Value Investments, LLC.

Investments in Local Government Investment Pool (LGIP)

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>.

Investments Measured at Amortized Cost		0
State Local Government Investment Pool (LGIP)	\$	15,767,711
Total Investments in Statement of Net Position	\$	15,767,711

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

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Note 3 - Capital Assets

Capital assets activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:				
Land	69,588			69,588
Water Rights	6,143			6,143
Construction In Progress	212,770	971,403	941,984	242,188
Total Capital Assets Not Being Depreciated	288,501	971,403	941,984	317,920
Capital Assets Being Depreciated:				
Plant & Buildings	30,281,396	828,997	9,370	31,101,024
Machinery & Equipment	1,534,893	166,997	84,008	1,617,883
Collection System	36,531,087	803,984	13,720	37,321,351
Total Capital Assets Being Depreciated	68,347,376	1,799,979	107,097	70,040,257
Less Accumulated Depreciation for:				
Plant & Buildings	13,631,307	970,566	9,370	14,592,503
Machinery & Equipment	958,607	79,106	84,008	953,705
Collection System	6,954,452	553,168	13,720	7,493,900
Total Accumulated Depreciation	21,544,366	1,602,840	107,097	23,040,109
Total Capital Assets Being Depreciated, Net	46,803,009	197,138	0	47,000,148
Total Capital Assets, Net	<u>\$47,091,510</u>	<u>\$1,168,541</u>	<u>\$941,984</u>	<u>\$47,318,068</u>

The District expensed any impairment losses that may arise. There were no impairment losses to report for 2022.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

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Note 4 - Construction and Other Significant Commitments

The District has active construction and other significant projects as of December 31, 2022. The projects include:

Project	Project Authorization	Spent to Date 12/31/22	Remaining Commitment	Required Future Financing	Source of Committed Funding
Summerplace Lift Station Replacement	318,000	127,893	190,107	0	Cash Reserves
WWTP Bath/Locker Rooms Remodel	100,000	43,571	56,429		Cash Reserves
Lexington to Lawler Main Replacement	344,760	15,784	328,976	0	Cash Reserves
Legacy Estate Forcemain Upgrade		37,939		TBD	TBD
SNDR Towers Coating Refurbishment	350,000	17,000	333,000	0	Cash Reserves
	\$ 1,112,760	\$ 242,188	\$ 908,511	\$ -	TBD: To be determined

Note 5 - Changes in Long-Term Liabilities

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

ID #	Description	Maturity / Payment Due Date	Beginning Balance 12/31/21	Additions	Reductions	Ending Balance 12/31/22	Due Within One Year
259	Compensated Absences		296,350	32,626		328,976	varies
264	Pension Liability		66,215	90,266		156,481	n/a
263	2003 PWTF - Port	7/1/2023	163,709		81,854	81,855	81,855
252	2006 Bond	8/1/2024	860,000			860,000	0
252	2016 Bond	8/1/2035	7,565,000		1,260,000	6,305,000	1,295,000
263	2021 CERB	1/1/2041	1,020,000		30,407	989,593	43,326
	Total Long-Term Liabilities		9,971,274	122,892	1,372,261	8,721,904	1,420,181

Note 6 - Long-Term Debt

The District issues revenue bonds to finance construction of Wastewater Treatment Plant upgrades and other capital projects. Bonded indebtedness has also been entered into in prior years to advance refund several revenue bonds. The revenue bonds are being repaid by proprietary fund reserves.

At December 31, 2022, the District has \$1,818,398 available in a debt service fund to service the 2023 bonded debt. Restricted assets in proprietary funds contain \$2,171,222 in sinking funds and reserves as required by bond covenants. There are a number of other limitations and restrictions contained in the bond covenants. The District is in compliance with all significant limitations and restrictions.

The District has pledged future enterprise revenues, net of enterprise operating expenses, to repay \$7,165,000.00 of outstanding balances of sewer revenue bonds issued in 2006 and 2016.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

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The District's revenue bonds are payable solely from sewer revenues and are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$8,417,119. Total bond principal and interest paid for the current year and total enterprise revenue were \$1,598,444 and \$6,656,702 respectively.

The District also has one non-parity, Public Works Trust Fund loan for a system extension project. Total principal and interest remaining to be paid on the non-parity debt is \$82,264 which is comprised of one pass-through loan for which the Chelan-Douglas Regional Port Authority reimburses the District for annual debt service. Principal and interest for 2022 on the non-parity debt is \$82,673 of which the Chelan-Douglas Regional Port Authority reimbursed \$82,673 of debt service to the District.

In 2021, the District secured a CERB loan to finance replacement of the Batterman Lift Station. The first payment was made in January of 2022 on the principal of \$1,020,000 and the interest of \$242,360.

Direct Placement Revenue Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for the construction of capital additions. Sewer revenues of the District provide the security for repayment of District debt. Direct Placements debt details of the District as of 12/31/2022 as outlined below.

Direct Borrowings – The District receives low-cost loan financing directly from third parties to finance wastewater infrastructure needs. Direct Borrowing details of the District as of 12/31/2022 as outlined below.

A. Direct Placement

	2006 Bond		2016 Refunding Bonds	
Original Amount	\$8,440,000		\$11,850,000	
Interest Rate	4.20%		2.42%	
Dated	11/15/06		5/23/16	
Maturity	2024		2035	
Year	Principal	Interest	Principal	Interest
2023	0	36,550	1,295,000	264,094
2024	860,000	36,550	490,000	205,819
2025			1,145,000	183,769
2026			1,200,000	132,244
2027			210,000	78,244
2028-2032			1,160,000	265,069
2033-2035			805,000	49,781
Totals	860,000	73,100	6,305,000	1,179,019

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

B. Direct Borrowing

	2021 CERB Loan Batterman Lift Station		2003 PWTF Loan Dist Pass-thru	
Original Amount	\$1,020,000		\$1,555,235	
Interest Rate	2.00%		0.50%	
Dated	10/31/19		7/29/03	
Maturity	2041		2023	
Year	Principal	Interest	Principal	Interest
2023	43,326	19,792	81,855	409
2024	44,193	18,925		
2025	45,077	18,041		
2026	45,978	17,140		
2027	46,898	16,220		
2028-2032	248,938	66,652		
2033-2037	274,848	40,742		
2038-2041	240,336	12,136		
Totals	989,593	209,649	81,855	409

The annual requirements to amortize all debts outstanding as of December 31, 2022, including interest, are:

Year	Principal	Interest	Total
2023	1,420,181	320,845	1,741,026
2024	1,394,193	261,294	1,655,487
2025	1,190,077	201,810	1,391,887
2026	1,245,978	149,384	1,395,362
2027	256,898	94,464	351,362
2028-2032	1,408,938	331,721	1,740,659
2033-2037	1,079,848	90,523	1,170,371
2038-2041	240,336	12,136	252,472
Total	8,236,448	1,462,177	9,698,625

Note 7 - Restricted Component of Net Position

The District's Statement of Net Position reports \$2,570,586 of restricted component of net position, of which \$2,171,222 is restricted by bond covenants.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset only.

Note 8 - COVID-19 Pandemic

In February of 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, canceling public events, limiting public and private gatherings, restricting business operations, travel and non-essential activities.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

The Governor's stay-at-home order recognizes wastewater services as an essential service, so the District has continued to operate essentially normally since the beginning of the pandemic. The Governor issued Proclamation 20-23.5 - Ratepayer Assistance and Preservation of Essential Services in May 2020, which prohibits utilities from charging late fees or shutting off essential services. The District returned to assessing penalties for late payments and past due collection practices after this proclamation ended on September 30, 2021.

Development activity in the District service area has remained strong despite the economic impacts of the COVID-19 pandemic. The District has not experienced any significant financial impacts due to the pandemic other than the loss of late fee revenue during the period of the prohibition of an approximate amount of \$330,000.

Note 9 - Risk Management

Douglas County Sewer District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of November 30, 2022, membership includes 195 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive and Collision, Equipment Breakdown, Crime Protection and Liability, including General, Automobile, Wrongful Acts, and Cyber, which are included to fit the member's various needs.

The program acquires reinsurance through their administrator, Clear Risk Solutions. Liability coverage is purchased to an aggregate limit of \$50,000,000 with a self-insured retention (SIR) of \$500,000. Members are responsible for a \$1,000 to \$50,000 deductible for each claim (can vary by member), while the program is responsible for the \$500,000 SIR. Since the program is a cooperative program, there is joint liability among the participating members toward the sharing of the \$500,000 SIR, in addition to the deductible. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$7,110,058, which is fully funded in its annual budget.

Property insurance is subject to a per occurrence SIR of \$500,000. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the \$500,000 SIR, in addition to the deductible

Crime insurance is subject to a per occurrence **SIR of \$25,000**. Members are responsible for a \$1,000 deductible for each claim (some member deductibles vary). The program bears the **\$25,000 SIR**, in addition to the deductible.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Equipment Breakdown insurance is subject to a per occurrence deductible of \$2,500 (cities and special districts) and \$500 (fire districts), which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program SIR on this coverage, with the exception of Pumps & Motors, which is \$15,000 and is covered by CIAW.

Cyber liability insurance is subject to a per-occurrence **SIR of \$50,000**. Members are responsible for a \$10,000 deductible for each claim, while the program is responsible for the remaining **\$40,000 SIR**.

Members contract to remain in the program for a minimum of one year and must give notice before December 1 to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, underwriting, claims adjustment, and loss prevention for the program. Fees paid to the third-party administrator under this arrangement for the year ending **December 1, 2022, were \$2,747,183.56.**

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Note 10 - Pensions Plans

The following table represents the aggregate pension amounts for all plans for the year ending December 31, 2022:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 156,481
Pension assets	\$ 271,186
Deferred outflows of resources	\$ 292,260
Deferred inflows of resources	\$ 306,886
Pension expense	\$ (18,571)

State Sponsored Pension Plans

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

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

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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to age 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). 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.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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, adopted by the Pension Funding Council and is subject to change by the Legislature. 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%
Actual Contribution Rates:	Employer	Employee
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:

- 1** With a benefit that is reduced by three percent for each year before age 65; or
- 2** 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.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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

Contributions

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

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

The Douglas County Sewer District's actual PERS plan contributions were \$37,540 to PERS Plan 1 and \$63,496 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

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

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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 (assets) were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation: 2.75% total economic inflation; 3.25% salary inflation

Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return: 7.00%

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

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 mode Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

Discount Rate

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

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

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class:	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	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 the Net Pension Liability (Asset)

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

	1% Decrease 6%	Current Discount 7%	1% Increase 8%
PERS 1	209,057	156,481	110,595
PERS 2/3	319,357	-271,186	-756,355

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.

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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

At June 30, 2022, the Douglas County Sewer District No. 1 reported its proportionate share of the net pension liabilities or assets as follows:

	Liability (or Asset)
PERS 1	156,481
PERS 2/3	-271,186

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

	Proportionate Share 06/30/21	Proportionate Share 06/30/22	Change in Proportionate Share
PERS Plan 1	0.00542%	0.00562%	0.00020%
PERS Plan 2/3	0.00697%	0.00731%	0.00034%

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

Pension Expense

For the year ended December 31, 2022, the Douglas County Sewer District recognized pension expense

	Pension Expense
PERS 1	\$76,606
PERS 2/3	-\$95,177
TOTAL	-\$18,571

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	0	-25,934
Contributions subsequent to the measurement date	20,235	0
TOTAL	20,235	-25,934

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	67,194	-6,139
Net difference between projected and actual investment earnings on pension plan investments	0	-200,490
Changes of assumptions	151,149	-39,576
Changes in proportion and differences between contributions and proportionate share of contributions	19,852	-34,747
Contributions subsequent to the measurement date	33,830	
TOTAL	272,025	-280,952

DOUGLAS COUNTY SEWER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS January 1, 2022 through December 31, 2022

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

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

Year ended December 31:	PERS 1 - Yearly Amortization	PERS 2/3 - Yearly Amortization
2023	-\$10,975	-\$67,125
2024	-\$9,968	-\$57,718
2025	-\$12,504	-\$69,004
2026	\$7,513	\$87,671
2027	\$0	\$32,312
Thereafter	\$0	\$31,107

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Required Supplementary Information (RSI) - all cost-sharing employers

Douglas County Sewer District									
Schedule of Proportionate Share of the Net Pension Liability (Asset)									
PERS Plan 1									
As of June 30									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	0.0052960%	0.0060970%	0.0055760%	0.0057240%	0.005994%	0.004651%	0.005422%	0.005620%	0.006088%
Employer's proportionate share of the net pension liability (asset)	277,030	327,438	264,586	255,636	230,491	164,205	66,215	156,481	138,973
Covered payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652	913,296	1,106,049
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	45.63%	45.18%	34.39%	33.50%	29.70%	21.14%	7.96%	17.13%	12.56%
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%	80.16%

Douglas County Sewer District									
Schedule of Proportionate Share of the Net Pension Liability (Asset)									
PERS Plan 2/3									
As of June 30									
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Employer's proportion of the net pension liability (asset)	0.0068430%	0.0078220%	0.0071720%	0.0073090%	0.0077410%	0.0060880%	0.0069730%	0.0073120%	0.0073120%
Employer's proportionate share of the net pension liability (asset)	244,504	393,832	249,193	124,795	75,191	77,862	-694,623	-271,186	(322,197)
Covered payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652	913,296	1,106,049
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	40.27%	54.34%	32.38%	16.35%	9.69%	10.02%	-83.52%	-29.69%	-29.13%
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%	107.02%

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Required Supplementary Information (RSI) - all cost-sharing employers

Schedule of Employer Contributions PERS 1									
	As of December 31,								
PERS 1	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	29,789	36,500	37,249	38,791	37,546	39,651	37,167	37,540	39,063
Contributions in relation to the statutorily or contractually required contributions	-29,789	-36,500	-37,249	-38,791	-37,546	-39,651	-37,167	-37,540	(39,063)
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0
Covered payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685	998,368	1,152,937
Contributions as a percentage of covered payroll	4.40%	4.77%	4.88%	5.06%	4.95%	4.80%	4.30%	3.76%	3.39%

Schedule of Employer Contributions PERS 2/3									
As of December 31,									
PERS Plan 2/3	2015	2016	2017	2018	2019	2020	2021	2022	2023
Statutorily or contractually required contributions	38,268	47,671	51,569	57,457	58,463	65,470	61,904	63,496	73,327
Contributions in relation to the statutorily or contractually required contributions	-38,268	-47,671	-51,569	-57,457	-58,463	-65,470	-61,904	-63,496	(73,327)
Contribution deficiency (excess)	0	0	0	0	0	0	0	0	0
Covered payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685	998,368	1,152,937
Contributions as a percentage of covered payroll	5.65%	6.23%	6.75%	7.50%	7.71%	7.92%	7.16%	6.36%	6.36%

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Notes to Required Supplemental Information - Pension

As of December 31
Last Nine Calendar Years

Note 1: Information Provided

The District became a part of the Pension Plan on January 1, 2015, therefore no data prior to 2015 is shown. Eventually, the schedules will show ten years of data.

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

Note 2: Significant Factors

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

Note 3: Covered payroll

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

Note 4: Contribution rates

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

PERS 1

<u>From this Date</u>	<u>Through this Date</u>	<u>Rate</u>
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	8/31/2023	10.39%
9/1/2023	current	9.53%

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

PERS 2/3

<u>From this Date</u>	<u>Through this Date</u>	<u>Rate</u>
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	8/31/2023	10.39%
9/1/2023	current	9.53%

* Employer contribution rate includes an administrative expense rate of 0.20%

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Required Supplementary Information (RSI) - all cost-sharing employers

Douglas County Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 1
As of June 30

PERS Plan 1	2015	2016	2017	2018	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset)	0.0052960%	0.0060970%	0.0055760%	0.0057240%	0.005994%	0.004651%	0.005422%	0.005620%
Employer's proportionate share of the net pension liability (asset)	277,030	327,438	264,586	255,636	230,491	164,205	66,215	156,481
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652	913,296
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.63%	45.18%	34.39%	33.50%	29.70%	21.14%	7.96%	17.13%
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%

Douglas County Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS Plan 2/3
As of June 30

PERS Plan 2/3	2015	2016	2017	2018	2019	2020	2021	2022
Employer's proportion of the net pension liability (asset)	0.0068430%	0.0078220%	0.0071720%	0.0073090%	0.0077410%	0.0060880%	0.0069730%	0.0073120%
Employer's proportionate share of the net pension liability (asset)	244,504	393,832	249,193	124,795	75,191	77,862	-694,623	-271,186
Employer's covered employee payroll	607,096	724,815	769,471	763,094	776,163	776,819	831,652	913,296
Employer's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	40.27%	54.34%	32.38%	16.35%	9.69%	10.02%	-83.52%	-29.69%
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%

Schedule of Employer Contributions
PERS 1

PERS 1	2015	2016	2017	2018	2019	2020	2021	2022
As of December 31,								
Statutorily or contractually required contributions	29,789	36,500	37,249	38,791	37,546	39,651	37,167	37,540
Contributions in relation to the statutorily or contractually required contributions	-29,789	-36,500	-37,249	-38,791	-37,546	-39,651	-37,167	-37,540
Contribution deficiency (excess)	0	0	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685	998,368
Contributions as a percentage of covered employee payroll	4.40%	4.77%	4.88%	5.06%	4.95%	4.80%	4.30%	3.76%

Schedule of Employer Contributions
PERS 2/3

PERS Plan 2/3	2015	2016	2017	2018	2019	2020	2021	2022
As of December 31,								
Statutorily or contractually required contributions	38,268	47,671	51,569	57,457	58,463	65,470	61,904	63,496
Contributions in relation to the statutorily or contractually required contributions	-38,268	-47,671	-51,569	-57,457	-58,463	-65,470	-61,904	-63,496
Contribution deficiency (excess)	0	0	0	0	0	0	0	0
Covered employer payroll	677,552	765,192	763,612	766,081	758,097	826,639	864,685	998,368
Contributions as a percentage of covered employee payroll	5.65%	6.23%	6.75%	7.50%	7.71%	7.92%	7.16%	6.36%

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Required Supplementary Information (RSI) - all cost-sharing employers

DOUGLAS COUNTY SEWER DISTRICT NO. 1
Notes to Required Supplemental Information - Pension

As of December 31
Last Five Calendar Years

Note 1: Information Provided

The District became a part of the Pension Plan on January 1, 2015, therefore no data prior to 2015 is shown. Eventually, the schedules will show ten years of data.

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

Note 2: Significant Factors

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

Note 3: Covered payroll

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

Note 4: Contribution rates

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

PERS 1

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

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

PERS 2/3

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

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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