



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

July 24, 2025

Board of Commissioners  
Midway Sewer District  
Kent, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Midway Sewer District for the fiscal years ended December 31, 2022 and 2021. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

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**MIDWAY SEWER DISTRICT**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**



CPAs | CONSULTANTS | WEALTH ADVISORS

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Midway Sewer District  
Kent, Washington

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the accompanying financial statements of Midway Sewer District (the District) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midway Sewer District, as of December 31, 2022 and 2021, and the changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Midway Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 Midway Sewer 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.

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- 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 Midway Sewer 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 Midway Sewer District's ability to continue as a going concern for a reasonable period of time

We are required to 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 the required supplementary information listed in the table of contents, 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 GAAS, 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.

***Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2023, on our consideration of Midway Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Midway Sewer District's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 28, 2023

**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

**INTRODUCTION**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of management's discussion and analysis presents our audit of the District's financial position as of December 31, 2022 and 2021 and our financial performance for the years then ended. Please read these comments in conjunction with the District's financial statements, which follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

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

	2022	2021	2020
Capital Assets	\$ 72,878,037	\$ 67,417,779	\$ 60,492,890
Other Assets	34,298,522	38,747,403	42,029,906
Total Assets	107,176,559	106,165,182	102,522,796
Deferred Outflows of Resources	726,614	250,680	276,848
Long-Term Liabilities	2,364,382	2,563,178	3,685,359
Other Liabilities	1,596,573	2,276,084	2,508,674
Total Liabilities	3,960,955	4,839,262	6,194,033
Deferred Inflows of Resources	752,885	1,949,670	277,477
Net Investment in Capital Assets	71,133,657	64,830,974	57,553,778
Restricted	707,715	1,852,254	8,100
Unrestricted Amounts	31,347,961	32,943,702	38,766,256
Total Net Position	<u>\$ 103,189,333</u>	<u>\$ 99,626,930</u>	<u>\$ 96,328,134</u>

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

	2022	2021	2020
Sewer Service Charges	\$ 10,472,233	\$ 9,523,206	\$ 9,067,071
Other Operating Revenue	492,059	392,810	382,409
Total Operating Revenues	10,964,292	9,916,016	9,449,480
Operating Costs	3,175,104	3,030,221	2,988,185
General and Administrative Expenses	2,640,955	1,804,537	3,009,937
Depreciation and Amortization	2,658,828	2,669,412	2,529,127
Total Operating Expenses	8,474,887	7,504,170	8,527,249
Operating Income	2,489,405	2,411,846	922,231
Nonoperating Revenues (Expenses):			
Investment Income and Other Interest	(398,931)	(124,518)	707,842
Net Gain (Loss) on Disposal of Assets	164	47,529	5,116
Other	108,940	126	35,025
Interest on Long-Term Debt	(4,323)	(4,988)	(5,653)
Total Nonoperating Revenues (Expenses)	(294,150)	(81,851)	742,330
Income Before Capital Contributions	2,195,255	2,329,995	1,664,561
Capital Contributions	1,367,148	968,801	3,057,532
Increase in Net Position	3,562,403	3,298,796	4,722,093
Net Position - Beginning of Year	99,626,930	96,328,134	91,606,041
Net Position - End of Year	<u>\$ 103,189,333</u>	<u>\$ 99,626,930</u>	<u>\$ 96,328,134</u>



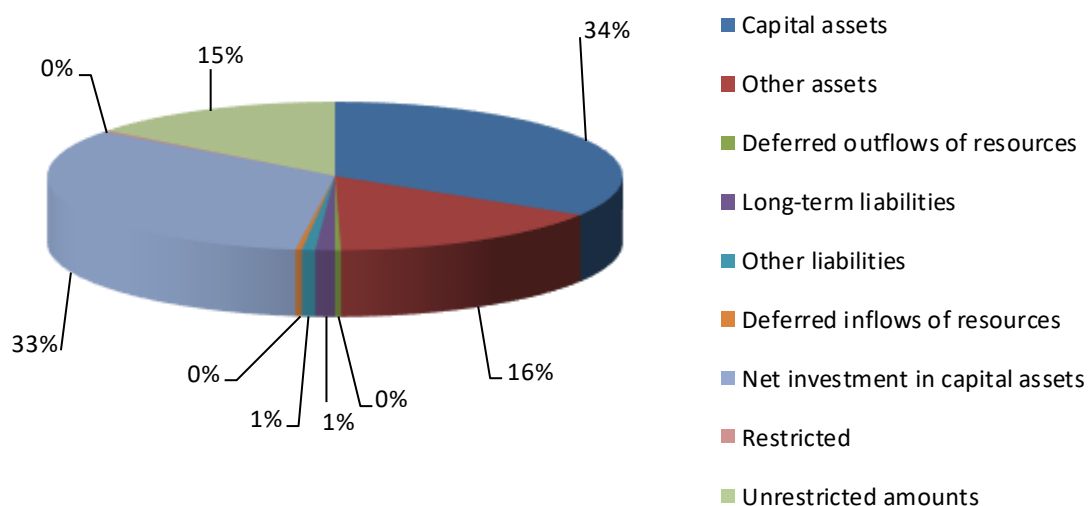
**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

**FINANCIAL POSITION**

The District's overall financial position continues to be strong. The District is financed primarily by equity. Substantial liquid assets are available to fund liabilities and construction. Capital assets increased in 2022 and 2021 due to increased construction activity.

The following charts indicate the components of financial position.

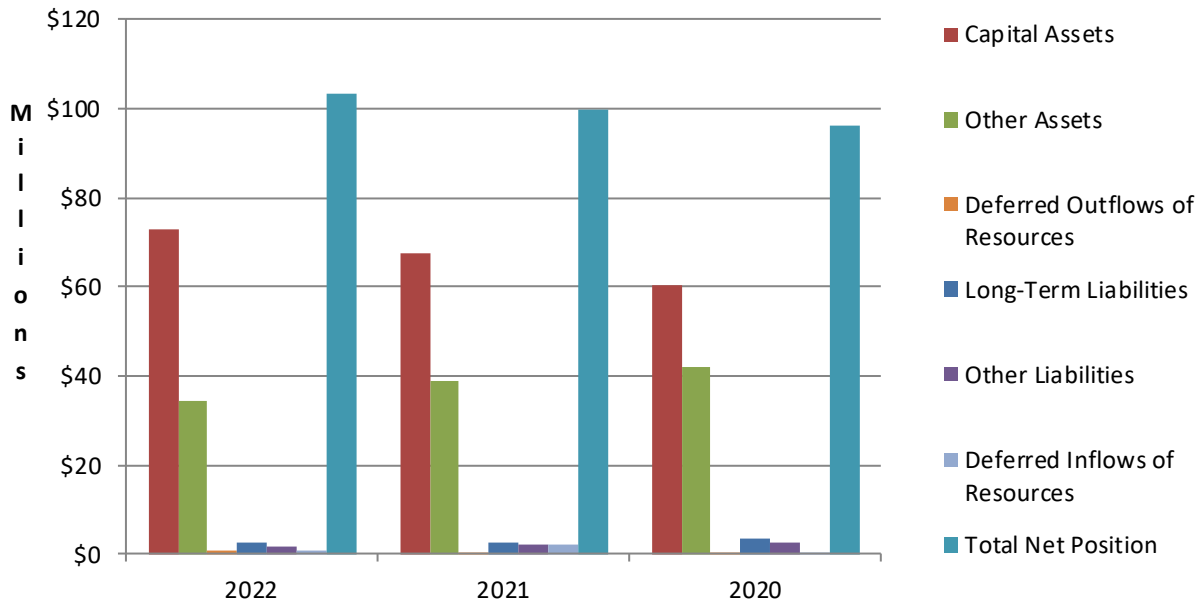
**2022 STATEMENT OF NET POSITION**



**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

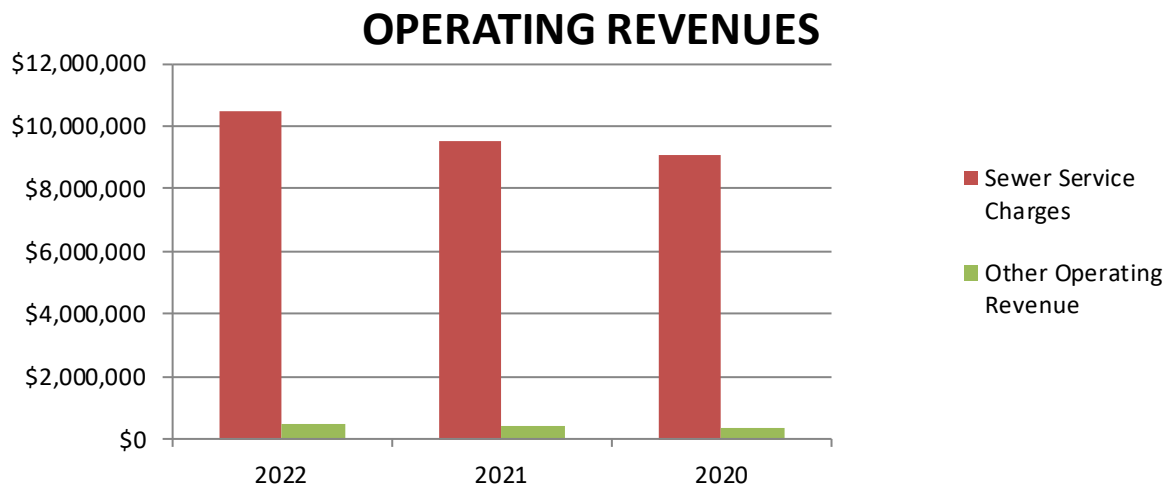
**FINANCIAL POSITION (CONTINUED)**

**COMPARATIVE STATEMENT OF NET POSITION**



**RESULTS OF OPERATIONS**

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

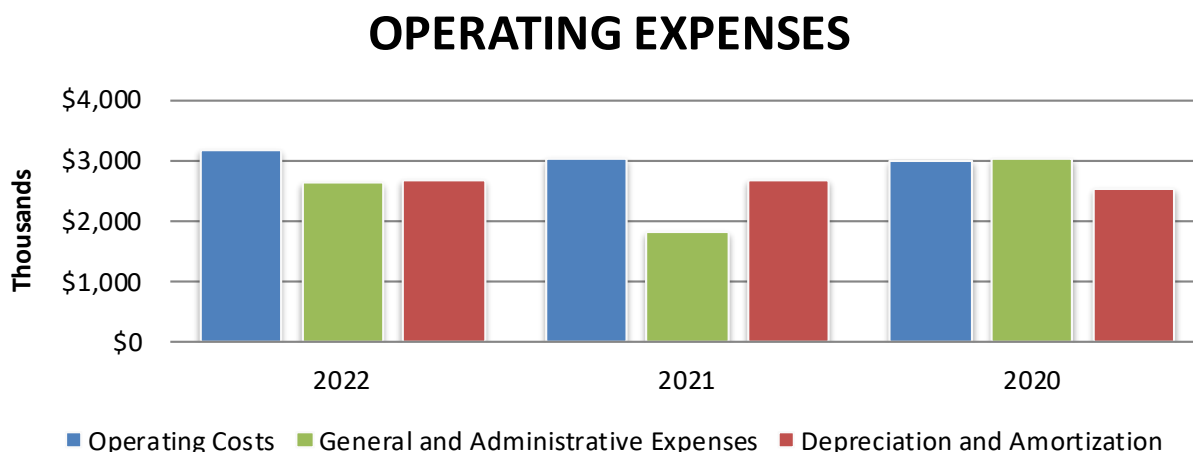


**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

**RESULTS OF OPERATIONS (CONTINUED)**

The increase in operating revenue in 2022 and 2021 was due to rate increases and increasing business activity as Covid-19 restrictions eased.

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



Operating costs in 2022, 2021 and 2020 were comparable.

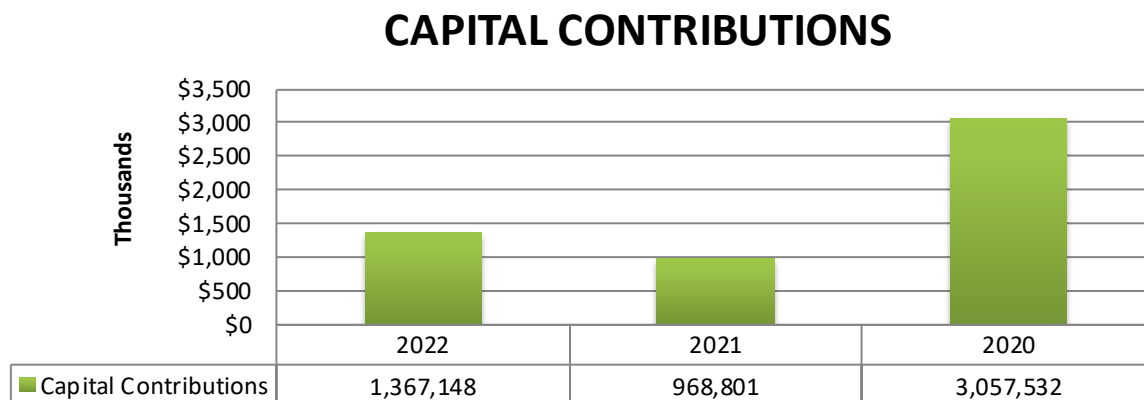
General and administrative costs increased in 2022 due to increases in personal costs from a district wide compensation adjustment and an increase in pension expense. General and administrative costs decreased in 2021 due to decreases in pension and OPEB expenses. Pension costs increased in 2022 and decreased 2021 primarily due to changes in the plans' investment earnings.

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

**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

**RESULTS OF OPERATIONS (CONTINUED)**

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments, and donated systems. The following chart indicates capital contributions over the past three years.



The contributions are indicative of the growth of the District and include donated systems totaling \$-0-, \$-0-, and \$361,236 for the years ended December 31, 2022, 2021, and 2020, respectively.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital assets increased in 2022 and 2021 due to increased construction activity.

Significant capital asset additions during the years included the following:

2022		2021	
SR 509 Sewer Relocation		SR 509 Sewer Relocation - 1B	
S. 206th St.	\$ 1,019,529	SR 509 Sewer Relocation - 1 -2A	\$ 249,320
SR 509 Sewer Relocation - 1 -2A	887,950	North and South Anaerobic	54,300
MSD Lobby Remodel	128,950	Digester Rehabilitation	110,393
Third Secondary Clarifier &		Third Secondary Clarifier &	
Diversion Structure Upgrade	1,301,400	Diversion Structure Upgrade	7,492,029
32nd Ave and 180th St.		Sound Transit FWLE Review	63,542
Sewer Replacement	93,183	Basin 20 Siphon	765,870
16th Ave. Pump Station	4,413,709	16th Ave. Pump Station	685,489
Godwin Pump Trailer	59,747		

**MIDWAY SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022 AND 2021**

**CAPITAL ASSETS AND LONG-TERM LIABILITIES (CONTINUED)**

Long-term liabilities decreased in 2022 due to principal payments made by the District and a decrease in the OPEB liability. Long-term liabilities decreased in 2021 due to principal payments made by the District and decreases in the net pension and OPEB liabilities.

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

As of December 31, 2022, the District had \$6,115,612 of cash and cash equivalents set aside in construction accounts of which \$434,737 is committed under existing contracts. The District had \$24,782,900 of additional cash and cash equivalents in operating funds.

The District also has cash and cash equivalents in the amount of \$5,277 that have been segregated by the King County Investment Pool into an impaired pool. See Note 2 in the financial statements for additional information regarding the Pool.

**MIDWAY SEWER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Unrestricted:		
Cash and Cash Equivalents	\$ 30,898,512	\$ 34,744,794
Accounts Receivable - Users	666,458	739,737
Interest Receivable	54,284	19,878
Unbilled Utility Service Receivable	1,126,570	913,117
Miscellaneous Accounts Receivable	486,524	108,326
Prepaid Expenses	279,066	236,698
Contracts Receivable - Current Portion	59,270	56,238
Total	<u>33,570,684</u>	<u>36,818,788</u>
Restricted:		
Cash and Cash Equivalents	<u>5,277</u>	<u>6,964</u>
Total Current Assets	33,575,961	36,825,752
<b>NONCURRENT ASSETS</b>		
Unrestricted:		
Contracts Receivable, Less Current Portion	20,123	76,361
Preliminary Surveys and Investigations	-	867
Total	<u>20,123</u>	<u>77,228</u>
Restricted:		
Net Pension Asset	702,438	1,845,290
Capital Assets Not Being Depreciated:		
Land, Land Rights, and Other	1,006,922	1,006,922
Construction in Progress	18,702,779	13,576,191
Capital Assets Being Depreciated:		
Plant in Service	118,117,654	115,124,289
Less: Accumulated Depreciation	<u>64,949,318</u>	<u>62,290,490</u>
Net Capital Assets	<u>72,878,037</u>	<u>67,416,912</u>
Total Noncurrent Assets	<u>73,600,598</u>	<u>69,339,430</u>
Total Assets	107,176,559	106,165,182
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows Related to Pensions	711,990	236,227
Deferred Outflows Related to Other Postemployment Benefits	<u>14,624</u>	<u>14,453</u>
Total Deferred Outflows of Resources	<u>726,614</u>	<u>250,680</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 107,903,173</u></u>	<u><u>\$ 106,415,862</u></u>

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT  
STATEMENTS OF NET POSITION (CONTINUED)  
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Payable from Unrestricted Assets:		
Accounts Payable	\$ 1,207,506	\$ 1,717,889
Compensated Absences	180,000	170,000
Retainage Payable	74,068	252,862
Accrued Interest	1,995	2,329
Long-Term Debt - Current Maturities	133,004	133,004
Total Current Liabilities	<u>1,596,573</u>	<u>2,276,084</u>
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Maturities	665,020	798,025
Compensated Absences	139,614	103,900
Net Pension Liability	405,371	175,905
Other Postemployment Benefits Liability	1,154,377	1,485,348
Total Noncurrent Liabilities	<u>2,364,382</u>	<u>2,563,178</u>
 Total Liabilities	 3,960,955	 4,839,262
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to Pensions	<u>752,885</u>	<u>1,949,670</u>
 Total Liabilities and Deferred Inflows of Resources	 4,713,840	 6,788,932
<b>NET POSITION</b>		
Net Investment in Capital Assets	71,133,657	64,830,974
Restricted for Pensions	702,438	1,845,290
Restricted for Impaired Investments	5,277	6,964
Unrestricted	31,347,961	32,943,702
Total Net Position	<u>103,189,333</u>	<u>99,626,930</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 107,903,173</u>	 <u>\$ 106,415,862</u>

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Service Charges:		
Commercial	\$ 6,490,591	\$ 6,014,373
Residential	2,707,596	2,597,642
Public Authorities	1,113,327	765,247
Retirement Homes	75,237	74,505
Schools	85,482	71,439
Total Service Charges	<u>10,472,233</u>	<u>9,523,206</u>
Late Charges	98,016	1,406
Permit Fees	14,924	14,662
Franchise Fee	379,119	376,742
Total Operating Revenues	<u>10,964,292</u>	<u>9,916,016</u>
<b>OPERATING EXPENSES</b>		
Sewage Treatment	2,131,735	2,133,704
Sewage Pumping	279,246	264,696
Sewage System	764,123	631,821
General and Administrative	2,640,955	1,804,537
Depreciation and Amortization	2,658,828	2,669,412
Total Operating Expenses	<u>8,474,887</u>	<u>7,504,170</u>
<b>OPERATING INCOME</b>	2,489,405	2,411,846
<b>NONOPERATING REVENUES</b>		
Investment Income, Net of Service Fees	(402,760)	(141,368)
Interest on Contracts	3,829	16,850
Miscellaneous	108,940	126
Net Gain (Loss) on Disposal of and Abandonment of Assets	164	47,529
Interest on Long-Term Debt	(4,323)	(4,988)
Total Nonoperating Revenues	<u>(294,150)</u>	<u>(81,851)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	2,195,255	2,329,995
Capital Contributions	<u>1,367,148</u>	<u>968,801</u>
<b>CHANGE IN NET POSITION</b>	3,562,403	3,298,796
Net Position - Beginning of Year	<u>99,626,930</u>	<u>96,328,134</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 103,189,333</u></u>	<u><u>\$ 99,626,930</u></u>

See accompanying Notes to Financial Statements.



**MIDWAY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 10,933,058	\$ 9,802,081
Cash Paid to Vendors	(2,991,761)	(2,801,649)
Cash Paid to and for Employees and Commissioners	(3,432,948)	(3,188,757)
Net Cash Provided by Operating Activities	<u>4,508,349</u>	<u>3,811,675</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	988,950	1,638,734
Collections on Contracts Receivable	53,206	166,857
Interest Received on Contracts	7,328	17,353
Proceeds from Sale of Assets	164	47,529
Interest Paid on Long-Term Debt	(4,657)	(5,319)
Expenditures for Plant in Service and Construction	(8,827,639)	(9,814,471)
Payment on Long-Term Debt	(133,005)	(133,004)
Net Cash Used by Capital and Related Financing Activities	<u>(7,915,653)</u>	<u>(8,082,321)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received on Investments	(440,665)	(126,231)
Net Cash Used by Investing Activities	<u>(440,665)</u>	<u>(126,231)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,847,969)	(4,396,877)
Cash and Cash Equivalents - Beginning of Year	<u>34,751,758</u>	<u>39,148,635</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 30,903,789</u></u>	<u><u>\$ 34,751,758</u></u>
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	\$ 30,898,512	\$ 34,744,794
Cash and Cash Equivalents - Restricted	5,277	6,964
Total	<u><u>\$ 30,903,789</u></u>	<u><u>\$ 34,751,758</u></u>

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>RECONCILIATION OF OPERATING INCOME NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 2,489,405	\$ 2,411,846
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	2,658,828	2,669,412
(Increase) Decrease in Assets and Deferred		
Outflows of Resources:		
Accounts Receivable	(140,174)	(114,061)
Prepaid Expenses	(42,368)	(7,453)
Net Pension Asset	1,142,852	(1,845,290)
Deferred Outflows Related to Pensions	(475,763)	18,766
Deferred Outflows Related to Other Postemployment Benefits	(171)	7,402
Increase (Decrease) in Liabilities and Deferred		
Inflows of Resources:		
Accounts Payable	19,376	(30,197)
Other Accrued Expenses	45,714	25,481
Net Pension Liability	229,466	(578,117)
Other Postemployment Benefits Liability	(330,971)	(418,433)
Deferred Inflows Related to Pensions	(1,196,785)	1,672,193
Other Income	108,940	126
Net Cash Provided by Operating Activities	<u>\$ 4,508,349</u>	<u>\$ 3,811,675</u>
<b>SUPPLEMENTAL DISCLOSURES OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES</b>		
Utility Plant Donations Received	\$ -	\$ 361,236
Contract Assessments	-	13,070
Increase in Receivables for Capital Contributions	378,198	501,684
Increase (Decrease) in Payables for Capital Assets	(708,553)	1,428,508

See accompanying Notes to Financial Statements.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

**Description of Business, Nature of Operations, and Reporting Entity**

Midway Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was created for the purpose of constructing, maintaining, and operating a sewer system within its boundaries, primarily in the cities of SeaTac and Des Moines, Washington. The District is governed by an elected five-member board and has no component units.

**Basis of Presentation and Accounting**

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

**Cash and Cash Equivalents**

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

**Accounts Receivable**

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

**Capital Assets**

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at acquisition value, which is determined by the contributing party's cost. Expenses for capital assets exceeding \$500, including leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

**Pensions**

For purposes of measuring the net pension asset/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.

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

**Deferred Outflows/Inflows of Resources**

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

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

**Compensated Absences**

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

**Net Position**

Net position is classified in the following three components:

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

*Restricted* – This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pensions or reduction for deferred inflows of resources related to pensions, and assets restricted by external creditors (such as through debt covenants), grantors, contributors or others, and deferred outflows of resources related to those assets, reduced by related liabilities, and deferred inflows of resources.

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

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

**Revenues and Expenses**

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

**Capital Contributions**

Utility Local Improvement District assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

**Use of Estimates in Financial Statement Preparation**

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

Cash on hand at December 31, 2022 and 2021 was \$300. The District's bank balances as of December 31, 2022 and 2021 were \$71,621 and \$37,214, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's deposits and certificates of deposit are covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

**Investments**

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

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

Investment Type	Fair Value	Average Effective Duration
<u>2022</u>		
King County Investment Pool:		
Main Pool	\$ 30,826,591	.99 Years
Impaired Pool	5,277	
<u>2021</u>		
King County Investment Pool:		
Main Pool	\$ 34,707,280	1.24 Years
Impaired Pool	6,964	

**Impaired Investments**

As of December 31, 2022 and 2021, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired investment pool principal was \$9,407 and \$11,006 at December 31, 2022 and 2021, respectively. The District's unrealized loss for these investments is \$4,130 and \$4,042 at December 31, 2022 and 2021, respectively.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

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

**Interest Rate Risk**

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

**Credit Risk**

As of December 31, 2022 and 2021, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by one NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by one NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

**NOTE 3 RESTRICTED ASSETS**

The assets held in these accounts are restricted for specific uses. Restricted assets are as follows:

	Current Restricted Assets	Noncurrent Restricted Assets
<u>December 31, 2022</u>		
Impaired Investment Pool	\$ 5,277	\$ -
Net Pension Asset	-	702,438
Total	<u>\$ 5,277</u>	<u>\$ 702,438</u>
 <u>December 31, 2021</u>		
Impaired Investment Pool	\$ 6,964	\$ -
Net Pension Asset	-	1,845,290
Total	<u>\$ 6,964</u>	<u>\$ 1,845,290</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 4 CAPITAL ASSETS**

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

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2022</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,006,922	\$ -	\$ -	\$ 1,006,922
Construction in Progress	13,576,191	7,974,795	(2,848,207)	18,702,779
Total	14,583,113	7,974,795	(2,848,207)	19,709,701
Capital Assets Being Depreciated:				
Sewer Systems	67,459,376	2,869,662	-	70,329,038
Treatment Plant	40,544,372	22,253	-	40,566,625
Office Building	2,320,830	-	-	2,320,830
Equipment and Other	4,799,711	101,450	-	4,901,161
Total	115,124,289	2,993,365	-	118,117,654
Accumulated Depreciation:				
Sewer Systems	(35,290,608)	(1,243,128)	-	(36,533,736)
Treatment Plant	(22,027,653)	(1,094,258)	-	(23,121,911)
Office Building	(1,329,975)	(46,128)	-	(1,376,103)
Equipment and Other	(3,642,254)	(275,314)	-	(3,917,568)
Total	(62,290,490)	(2,658,828)	-	(64,949,318)
Net Capital Assets	<u>\$ 67,416,912</u>	<u>\$ 8,309,332</u>	<u>\$ (2,848,207)</u>	<u>\$ 72,878,037</u>



**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<u>2021</u>				
Capital Assets Not Being Depreciated:				
Land, Land Rights, and Other	\$ 1,006,922	\$ -	\$ -	\$ 1,006,922
Construction in Progress	6,778,974	9,477,355	(2,680,138)	13,576,191
Total	7,785,896	9,477,355	(2,680,138)	14,583,113
Capital Assets Being Depreciated:				
Sewer Systems	66,282,818	1,176,558	-	67,459,376
Treatment Plant	38,934,023	1,610,349	-	40,544,372
Office Building	2,320,830	-	-	2,320,830
Equipment and Other	5,014,178	9,310	(223,777)	4,799,711
Total	112,551,849	2,796,217	(223,777)	115,124,289
Accumulated Depreciation:				
Sewer Systems	(34,076,745)	(1,213,863)	-	(35,290,608)
Treatment Plant	(20,952,999)	(1,074,654)	-	(22,027,653)
Office Building	(1,283,846)	(46,129)	-	(1,329,975)
Equipment and Other	(3,531,265)	(334,766)	223,777	(3,642,254)
Total	(59,844,855)	(2,669,412)	223,777	(62,290,490)
Net Capital Assets	<u>\$ 60,492,890</u>	<u>\$ 9,604,160</u>	<u>\$ (2,680,138)</u>	<u>\$ 67,416,912</u>

**NOTE 5 LONG-TERM DEBT**

Long-term debt payable outstanding at December 31, 2022 and 2021 consisted of direct borrowings, secured by the revenue of the sewer system, issued for utility construction:

<u>Description</u>	<u>2022</u>	<u>2021</u>
Public Works Trust Fund Loan:		
2008 \$2,583,198 loan: Payable \$133,004 annually through the year 2028, plus interest at .50 annual percentage rate.	\$ 798,024	\$ 931,029
Less: Current Maturities	133,004	133,004
Total	<u>\$ 665,020</u>	<u>\$ 798,025</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 133,004	\$ 3,990	\$ 136,994
2024	133,004	3,325	136,329
2025	133,004	2,660	135,664
2026	133,004	1,995	134,999
2027	133,004	1,330	134,334
2028	133,004	665	133,669
Total	<u>\$ 798,024</u>	<u>\$ 13,965</u>	<u>\$ 811,989</u>

**NOTE 6 CHANGES IN LONG-TERM LIABILITIES**

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

	<u>Balance - Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance - End of Year</u>	<u>Amounts Due Within One Year</u>
<u>2022</u>					
Public Works Trust Fund					
Loans	\$ 931,029	\$ -	\$ 133,005	\$ 798,024	\$ 133,004
Compensated Absences	273,900	225,670	179,956	319,614	180,000
Net Pension Liability PERS 1	175,905	229,466	-	405,371	-
Other Postemployment Benefits Liability	1,485,348	91,887	422,858	1,154,377	-
Total	<u>\$ 2,866,182</u>	<u>\$ 547,023</u>	<u>\$ 735,819</u>	<u>\$ 2,677,386</u>	<u>\$ 313,004</u>
<u>2021</u>					
Public Works Trust Fund					
Loans	\$ 1,064,033	\$ -	\$ 133,004	\$ 931,029	\$ 133,004
Compensated Absences	248,419	201,518	176,037	273,900	170,000
Net Pension Liability PERS 1	513,156	-	337,251	175,905	-
Net Pension Liability PERS 2/3	240,866	-	240,866	-	-
Other Postemployment Benefits Liability	1,903,781	124,838	543,271	1,485,348	-
Total	<u>\$ 3,970,255</u>	<u>\$ 326,356</u>	<u>\$ 1,430,429</u>	<u>\$ 2,866,182</u>	<u>\$ 303,004</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN**

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

	2022	2021
Pension Liabilities	\$ 405,371	\$ 175,905
Pension Assets	(702,438)	1,845,290
Deferred Outflows of Resources	711,990	236,227
Deferred Inflows of Resources	752,885	1,949,670
Pension Expense	(51,037)	(465,642)

**State Sponsored Pension Plans**

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

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

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

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

**PERS Plan 1 (Continued)** – Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**Contributions** – The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) were as follows:

<u>PERS Plan 1 Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee</u>
<u>2022</u>		
January through August		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.71	
Administrative Fee	0.18	
Total	<u>10.25 %</u>	<u>6.00 %</u>
September through December		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.85 %	
Administrative Fee	0.18	
Total	<u>10.39 %</u>	<u>6.00 %</u>
<u>2021</u>		
January through June		
PERS Plan 1	7.92 %	6.00 %
PERS Plan 1 UAAL	4.87	
Administrative Fee	0.18	
Total	<u>12.97 %</u>	<u>6.00 %</u>
July through December		
PERS Plan 1	6.36 %	6.00 %
PERS Plan 1 UAAL	3.71	
Administrative Fee	0.18	
Total	<u>10.25 %</u>	<u>6.00 %</u>

The District's actual contributions to the plan were \$92,386 and \$100,358 for the years ended December 31, 2022 and 2021, respectively.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

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

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

- With a benefit that is reduced by 3% for each year before age 65, or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** – defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of 6 options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Contributions** – The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

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

<u>PERS Plan 2/3 Actual Contribution Rates</u>	<u>Employer 2/3</u>	<u>Employee 2</u>	<u>Employee 3</u>
<u>2022</u>			
January through August			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>
September through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.85		
Administrative Fee	0.18		
Total	<u>10.39 %</u>	<u>6.36 %</u>	<u>Varies</u>
<u>2021</u>			
January through June			
PERS Plan 2/3	7.92 %	7.90 %	Varies
PERS Plan 1 UAAL	4.87		
Administrative Fee	0.18		
Total	<u>12.97 %</u>	<u>7.90 %</u>	<u>Varies</u>
July through December			
PERS Plan 2/3	6.36 %	6.36 %	Varies
PERS Plan 1 UAAL	3.71		
Administrative Fee	0.18		
Total	<u>10.25 %</u>	<u>6.36 %</u>	<u>Varies</u>

The District's actual contributions to the plan were \$156,807 and \$166,447 for the years ended December 31, 2022 and 2021, respectively.

**Actuarial Assumptions**

The 2022 total pension liability/(asset) (TPL/A) 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*.

The 2021 total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the actuarial valuation completed in 2021 with a valuation date of June 30, 2020. 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 *2019 Economic Experience Study*.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Additional assumptions for subsequent events and law changes are current as of the 2021 and 2020 actuarial valuation reports. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022 and June 30, 2021. 2022 Plan liabilities/(assets) were rolled forward from June 30, 2021, to June 30, 2022, and 2021 Plan liabilities/(assets) were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation for the 2021 and 2020 actuarial valuations, 3.25% and 3.50% salary inflation for the 2021 and 2020 actuarial valuations, respectively.
- **Salary increases:** In addition to the base salary inflation assumptions, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.0% and 7.4% for the 2021 and 2020 actuarial valuations, respectively.

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

There were no changes in methods between the 2021 and 2020 valuations. There were changes in assumption between the 2021 and 2020 valuations.

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

There were no changes in assumptions between the 2020 and 2019 valuations. There were changes in methods between the 2020 and 2019 valuations.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability/(asset) measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

**Discount Rate**

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7.0% and 7.4% for the 2021 and 2020 valuations, respectively.

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% and 7.4% was used to determine the total liability/(asset) for the 2021 and 2020 valuations, respectively.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.0% and 7.4% for the 2021 and 2020 valuations, respectively, was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.



**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, are summarized in the table below. The inflation component used to create the tables is 2.2% for the 2021 and 2020 actuarial valuations and represents the WSIB's most recent long-term estimate of broad economic inflation.

As of June 30, 2021 and 2020 actuarial valuations:

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
<u>2021 Actuarial Valuation</u>		
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
Total	<u>100 %</u>	
<u>2020 Actuarial Valuation</u>		
Fixed Income	20 %	2.20 %
Tangible Assets	7	5.10
Real Estate	18	5.80
Global Equity	32	6.30
Private Equity	23	9.30
Total	<u>100 %</u>	

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Sensitivity of NPL/(Asset)**

The table below presents the District's proportionate share of the net pension liability/(asset) calculated using the applicable discount rate, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than applicable discount rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
<u>2022</u>			
PERS 1	\$ 541,570	\$ 405,371	\$ 286,501
PERS 2/3	827,213	(702,438)	(1,959,144)
	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
<u>2021</u>			
PERS 1	\$ 299,663	\$ 175,905	\$ 67,974
PERS 2/3	(525,687)	(1,845,290)	(2,931,983)

**Pension Plan Fiduciary Net Position**

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

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

At December 31, 2022 and 2021, the District reported a total pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2022 and 2021):

	2022	2021
PERS 1	\$ 405,371	\$ 175,905
PERS 2/3	(702,438)	(1,845,290)
Total	<u>\$ (297,067)</u>	<u>\$ (1,669,385)</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

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

	<u>Proportionate Share 6/30/21</u>	<u>Proportionate Share 6/30/22</u>	<u>Change in Proportion</u>
PERS 1	0.014404%	0.014559%	0.000155%
PERS 2/3	0.018524%	0.018940%	0.000416%
	<u>Proportionate Share 6/30/20</u>	<u>Proportionate Share 6/30/21</u>	<u>Change in Proportion</u>
PERS 1	0.014535%	0.014404%	-0.000131%
PERS 2/3	0.018833%	0.018524%	-0.000309%

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

**Pension Expense**

For the years ended December 31 the District recognized pension expense as follows:

	<u>2022</u>	<u>2021</u>
PERS 1	\$ 190,612	\$ (37,621)
PERS 2/3	(241,649)	(428,021)
Total	<u>\$ (51,037)</u>	<u>\$ (465,642)</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2022</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	67,182
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	49,104	-
Total PERS 1	<u>\$ 49,104</u>	<u>\$ 67,182</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 174,048	\$ 15,901
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	519,318
Changes of Assumptions	391,512	102,512
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	14,717	47,972
Contributions Subsequent to the Measurement Date	82,609	-
Total PERS 2/3	<u>\$ 662,886</u>	<u>\$ 685,703</u>
Total All Plans	<u>\$ 711,990</u>	<u>\$ 752,885</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2021</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	195,195
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	45,877	-
Total PERS 1	<u>\$ 45,877</u>	<u>\$ 195,195</u>
PERS 2/3:		
Differences Between Expected and Actual Experience	\$ 89,623	\$ 22,621
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	1,542,229
Changes of Assumptions	2,697	131,046
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of Contributions	20,185	58,579
Contributions Subsequent to the Measurement Date	77,845	-
Total PERS 2/3	<u>\$ 190,350</u>	<u>\$ 1,754,475</u>
Total All Plans	<u>\$ 236,227</u>	<u>\$ 1,949,670</u>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or an addition to the net pension asset in the following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2023	\$ (28,430)	\$ (170,712)
2024	(25,822)	(147,940)
2025	(32,393)	(178,221)
2026	19,463	229,527
2027	-	80,502
Thereafter	-	81,418
Total	<u>\$ (67,182)</u>	<u>\$ (105,426)</u>

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS**

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

	2022	2021
OPEB Liabilities	\$ 1,154,377	1,485,348
Deferred Outflows of Resources	14,624	14,453
OPEB Expense	(303,488)	(384,688)

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

**General Information about the OPEB Plan**

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

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

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation dates of June 30, 2022 and 2021, the explicit subsidy for post-65 retirees and spouses is the lesser of \$183 or 50% of the monthly premiums. The retirees and spouses currently pay the premium minus \$183 when the premium is over \$366 per month and pay half the premium when the premium is lower than \$366.

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Employees Covered by Benefit Terms**

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

	<u>2022</u>	<u>2021</u>
Inactive Employees or Beneficiaries Currently Receiving		
Benefit Payments	10	10
Inactive Employees Entitled to but not yet Receiving		
Benefit Payments	-	-
Active Employees	21	25

**Funding Policy**

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

**Contributions**

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

**Total OPEB Liability**

The District's total OPEB liability was measured as of June 30, 2022 and 2021, and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurements were provided by the Washington State Actuary.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability (Continued)**

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

Methodology:

Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately

Assumptions:

Discount Rate - Based on Bond Buyer General

Obligation 20-Bond Municipal Index:

	<u>2022</u>	<u>2021</u>
Beginning of Measurement Year	2.16%	2.21%
End of Measurement Year	3.54%	2.16%
	<u>2022</u>	<u>2021</u>
Projected Salary Changes	3.50%	3.50%

Plus Service-Based Increases

Health Care Trend Rates

Initial Rate ranges from  
Approximately 2% to 11%, Reaching  
an ultimate rate of Approximately  
4.3% in 2075

2022 Trend rate assumptions vary by medical plan. For additional detail on the health care trend rates, see Office of the State Actuary's *PEBB OPEB Healthcare Trend Assumptions* webpage.

2021 Trend rate assumptions vary slightly by medical plan. For additional detail on the health care trend rates, see Office of the State Actuary's 2020 PEBB OPEB Actuarial Valuation Report.

	<u>2022</u>	<u>2021</u>
Mortality Rates:		
Base Mortality Table	PubG.H 2010 (General)	PubG.H 2010 (General)
Age Setback	0 Years	0 Years
Mortality Improvements	MP-2017 Long-Term Rates	MP-2017 Long-Term Rates
Projection Period	Generational	Generational

	<u>2022</u>	<u>2021</u>
Inflation Rate	2.75%	2.75%

Postretirement Participation Percentage 65.00%

Percentage with Spouse Coverage 45.00%



**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Changes in the Total OPEB Liability**

	2022	2021
Balance - Beginning of Year	\$ 1,485,348	\$ 1,903,781
Service Cost	58,828	81,338
Interest	33,059	43,500
Changes in Experience and Data Assumptions	(395,375)	(509,526)
Changes in Benefit Terms	-	-
Benefit Payments	(27,483)	(33,745)
Other	-	-
Total	<u>\$ 1,154,377</u>	<u>\$ 1,485,348</u>

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

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

<u>2022</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 1,349,139	\$ 1,154,377	\$ 997,385
Health Care Cost Trend Rate	983,632	1,154,377	1,371,349

<u>2021</u>	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Discount Rate	\$ 1,768,529	\$ 1,485,348	\$ 1,260,825
Health Care Cost Trend Rate	1,238,032	1,485,348	1,807,060

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

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

	2022	2021
Service Cost	\$ 58,828	\$ 81,338
Interest Cost	33,059	43,500
Changes in Experience and Data Assumptions	(395,375)	(509,526)
Total	<u>\$ (303,488)</u>	<u>\$ (384,688)</u>

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

	2022	2021
Contributions Subsequent to the Measurement Date	<u>\$ 14,624</u>	<u>\$ 14,453</u>

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 9 DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District made no contributions to the plan in 2022 or 2021.

**NOTE 10 RISK MANAGEMENT**

Midway Sewer District is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the state of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

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

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays <sup>(1)</sup>
<b>Liability:</b>				
Comprehensive General Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Automobile Liability	Per Occurrence	\$1 million	\$20 million	\$1,000 - \$100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	\$1 million	\$20 million \$20 million	\$1,000 - \$100,000
Terrorism Liability <sup>(2)</sup>	Per Occurrence Pool Aggregate	\$500,000 \$1 million	\$0 Fully funded by Pool	\$1,000 - \$100,000
Employment Practices Liability	Per Occurrence Member Aggregate	\$1 million	\$20 million \$20 million	20% Copay <sup>(3)</sup>

- (1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
- (2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.
- (3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

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

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

**MIDWAY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

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

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

**NOTE 11 COMMITMENTS**

The District entered into an agreement with the City of Kent in 1991 that required the District to pay for one-half of street improvements for approximately 400 feet of the roadway located in front of the District's office building in 10 years if no Local Improvement District (LID) had been formed and the City was to undertake the improvement project. No LID has been formed. The District has requested that the City extend the agreement. As of December 31, 2022, the City has not responded to the District's request for an extension or notified the District that the improvement project will occur and no estimate has been made of the District's share of the costs of constructing the improvements should the City proceed with the project.

As of December 31, 2022, the District is committed under construction contracts totaling \$14,520,553 of which \$14,086,116 has been expended.

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

	2022	2021	2020	2019	2018
<b>Total OPEB Liability - Beginning</b>	\$ 1,485,348	\$ 1,903,781	\$ 1,418,860	\$ 1,510,553	\$ 1,492,185
Service Cost	58,828	81,338	49,490	49,774	64,779
Interest	33,059	43,500	50,692	59,649	55,329
Changes in Experience and Data Assumptions	(395,375)	(509,526)	425,104	(162,721)	(78,592)
Changes in Benefit Terms	-	-	-	-	-
Benefit Payments	(27,483)	(33,745)	(40,365)	(38,395)	(23,148)
Other Changes	-	-	-	-	-
<b>Total OPEB Liability - Ending</b>	<u>\$ 1,154,377</u>	<u>\$ 1,485,348</u>	<u>\$ 1,903,781</u>	<u>\$ 1,418,860</u>	<u>\$ 1,510,553</u>
<b>Covered Payroll</b>	\$ 2,347,966	\$ 2,218,508	\$ 2,218,264	\$ 2,263,694	\$ 2,103,250
<b>Total OPEB Liability as a % of Covered Payroll</b>	49.16%	66.95%	85.82%	62.68%	71.82%

**Notes to Schedule:**

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

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

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

**PERS 1**

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2022	0.014559%	\$ 405,371	\$ 2,344,766	17.29%	76.56%
2021	0.014404%	175,905	2,215,564	7.94%	88.74%
2020	0.014535%	513,156	2,203,160	23.29%	68.64%
2019	0.015980%	614,473	2,248,974	27.32%	67.12%
2018	0.015642%	698,584	2,091,394	33.40%	63.22%
2017	0.015172%	719,923	1,917,156	37.55%	61.24%
2016	0.018783%	1,008,728	2,097,071	48.10%	57.03%
2015	0.020023%	1,047,404	2,000,052	52.37%	59.10%
2014	0.018411%	927,457	1,827,065	50.76%	61.19%
2013	0.019159%	1,119,537	1,731,369	64.66%	

**PERS 2/3**

<u>Year</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Employer's Covered Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2022	0.018940%	\$ (702,438)	\$ 2,344,766	-29.96%	106.73%
2021	0.018524%	(1,845,290)	2,215,564	-83.29%	120.29%
2020	0.018833%	240,866	2,203,160	10.93%	97.22%
2019	0.020644%	200,522	2,248,974	8.92%	97.77%
2018	0.019983%	341,193	2,091,394	16.31%	95.77%
2017	0.019515%	678,064	1,917,156	35.37%	90.97%
2016	0.020758%	1,045,138	1,970,850	53.03%	85.82%
2015	0.019802%	707,544	1,761,094	40.18%	89.20%
2014	0.018853%	381,096	1,639,106	23.25%	93.29%
2013	0.019028%	812,503	1,553,005	52.32%	

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

**PERS 1**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2022	\$ 92,386	\$ (92,386)	\$ -	\$ 2,465,509	3.75%
2021	100,358	(100,358)	-	2,296,849	4.37%
2020	105,957	(105,957)	-	2,213,375	4.79%
2019	140,325	(140,325)	-	2,227,351	6.30%
2018	109,685	(109,685)	-	2,169,725	5.06%
2017	97,226	(97,226)	-	1,996,393	4.87%
2016	103,130	(103,130)	-	2,055,732	5.02%
2015	145,876	(145,876)	-	2,040,075	7.15%
2014	84,954	(84,954)	-	1,866,818	4.55%
2013	66,269	(66,269)	-	1,744,421	3.80%

**Notes to Schedule:**

PERS 1 contributions in 2019 and 2015 include \$29,422 and \$46,279, respectively, for excess compensation.

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

**PERS 2/3**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2022	\$ 156,807	\$ (156,807)	\$ -	\$ 2,465,509	6.36%
2021	166,447	(166,447)	-	2,296,849	7.25%
2020	175,300	(175,300)	-	2,227,351	7.87%
2019	171,130	(171,130)	-	2,227,351	7.68%
2018	162,677	(162,677)	-	2,169,725	7.50%
2017	134,772	(134,772)	-	1,996,393	6.75%
2016	122,549	(122,549)	-	1,971,180	6.22%
2015	105,230	(105,230)	-	1,847,266	5.70%
2014	84,011	(84,011)	-	1,678,022	5.01%
2013	77,593	(77,593)	-	1,561,769	4.97%

**Notes to Schedule:**

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



**MIDWAY SEWER DISTRICT  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>SEWAGE TREATMENT</b>		
Supervision	\$ 228,816	\$ 191,679
Labor	812,086	771,391
Utilities	384,760	377,535
Supplies and General Expense	656,857	673,457
Chemicals	-	53,806
Maintenance and Repairs	20,502	42,170
Auto and Truck	<u>28,714</u>	<u>23,666</u>
Total	<u><u>\$ 2,131,735</u></u>	<u><u>\$ 2,133,704</u></u>
<b>SEWAGE PUMPING</b>		
Supervision	\$ 2,165	\$ 607
Labor	134,399	111,838
Utilities	110,549	102,000
Supplies and General Expense	32,133	50,003
Maintenance and Repairs	<u>-</u>	<u>248</u>
Total	<u><u>\$ 279,246</u></u>	<u><u>\$ 264,696</u></u>
<b>SEWAGE SYSTEM</b>		
Supervision	\$ 84,109	\$ 69,196
Labor	571,440	497,749
Maintenance of Lines	40,307	13,994
Supplies and General Expense	<u>68,267</u>	<u>50,882</u>
Total	<u><u>\$ 764,123</u></u>	<u><u>\$ 631,821</u></u>

**MIDWAY SEWER DISTRICT  
SCHEDULES OF OPERATING EXPENSES (CONTINUED)  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>GENERAL AND ADMINISTRATIVE</b>		
Office Salaries	\$ 341,525	\$ 285,980
Manager and Engineering Salaries	601,212	501,772
Salaries and Overhead Applied to Construction	<u>(213,396)</u>	<u>(179,310)</u>
Net General and Administrative Payroll	729,341	608,442
Payroll Taxes	240,996	227,507
Employee Benefits	(55,328)	(491,004)
Account Collection	20,943	8,292
Accounting	81,030	83,337
Commissioners' Fees	102,859	73,657
Dues and Subscriptions	23,020	21,053
Engineering	37,618	14,130
Excise Taxes	212,893	212,288
Insurance	284,981	250,413
Legal	57,504	25,199
Maintenance of Office and Equipment	43,518	21,504
Miscellaneous	329,879	224,305
Office Supplies and Expense	123,251	118,164
State Audit Fees	-	12,464
Travel, Conventions, and Seminars	11,184	5,655
Utilities	27,964	23,973
Franchise and Utility Taxes	<u>369,302</u>	<u>365,158</u>
Total	<u><u>\$ 2,640,955</u></u>	<u><u>\$ 1,804,537</u></u>

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

Due in 2023

*Interest:*

2008 Public Works Trust Fund Loan	\$ 3,990
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*Principal:*

2008 Public Works Trust Fund Loan	133,004
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Total Debt Requirements	\$ 136,994
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Due in 2024

*Interest:*

2008 Public Works Trust Fund Loan	\$ 3,325
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*Principal:*

2008 Public Works Trust Fund Loan	133,004
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Total Debt Requirements	\$ 136,329
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**MIDWAY SEWER DISTRICT  
SCHEDULE OF CHANGES TO CONSTRUCTION WORK IN PROGRESS  
YEARS ENDED DECEMBER 31, 2022 AND 2021**

Project Description	Balance December 31, 2021	Additions (Refunds/ Transfers)	Written-Off or Closed to Plant in Service	Balance December 31, 2022
SR 509 Sewer Relocation - 1 -2A	\$ 54,300	\$ 887,949	\$ -	\$ 942,249
SR 509 Sewer Relocation - S 206th St	20,369	1,019,529	-	1,039,898
SR 509 Sewer Relocations S 194th St	-	13,574	-	13,574
SR 516 Barnes Creek Culvert				
Replacement	21,701	6,652	-	28,353
Salt Water State Park Force Main	26,928	-	-	26,928
Third Secondary Clarifier and Diversion				
Structure	9,171,957	1,301,400	-	10,473,357
Sound Transit FWLE Review	78,237	15,528	-	93,765
Trickling Filter 4 Feed Pump	-	15,405	(15,405)	-
North Hill Sewer Ext	386,666	-	(386,666)	-
Basin 20 Siphon	2,438,754	534	(2,439,288)	-
16th Ave Pump Station	1,367,921	4,413,709	-	5,781,630
MSD Lobby Remodel	9,358	128,945	-	138,303
16th Ave Main	-	31,847	-	31,847
Gould Pump	-	6,848	(6,848)	-
UV Upgrades	-	20,259	-	20,259
32nd Ave & 180th St Sewer	-	93,183	-	93,183
Primary Clarifiers 3 / 4	-	19,433	-	19,433
Total	<u>\$ 13,576,191</u>	<u>\$ 7,974,795</u>	<u>\$ (2,848,207)</u>	<u>\$ 18,702,779</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Midway Sewer District  
Kent, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Midway Sewer District (the District) as of and for the year ended December 31, 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 November 28, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

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

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**CliftonLarsonAllen LLP**

Bellevue, Washington  
November 28, 2023

