# Financial Statements Audit Report

# Public Utility District No. 1 of Skagit County

**For the period January 1, 2020 through December 31, 2020**

*Published December 20, 2021*

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# Office of the Washington State Auditor
# Pat McCarthy

December 20, 2021

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

## Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Skagit County's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

### *Americans with Disabilities*

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**Public Utility District No. 1 of Skagit County**
**January 1, 2020 through December 31, 2020**

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Skagit County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2021.

As discussed in Note 14 of the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

## 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

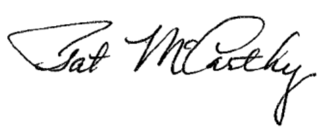
## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

December 14, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

**Public Utility District No. 1 of Skagit County**
**January 1, 2020 through December 31, 2020**

Board of Commissioners
Public Utility District No. 1 of Skagit County
Mount Vernon, Washington

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Skagit County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Skagit County, as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Matters of Emphasis

As discussed in Note 14 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

# OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

December 14, 2021

# FINANCIAL SECTION

**Public Utility District No. 1 of Skagit County**
**January 1, 2020 through December 31, 2020**

## REQUIRED SUPPLEMENTARY INFORMATION



## BASIC FINANCIAL STATEMENTS



## REQUIRED SUPPLEMENTARY INFORMATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Public Utility District No. 1 of Skagit County presents this discussion and analysis as part of the financial statements for the fiscal year ended December 31, 2020. The information presented should be read in conjunction with the financial statements and the accompanying notes.

### Financial Highlights

- Operating revenue increased by $1.1 million to $26,178,691.
- The District's overall financial position increased in 2020 as compared to 2019. Net position increased $6,153,082 or 3.51%.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### Basic Financial Statements

The District accounts for its financial activity within a single enterprise fund. The activities of the District are comprised of treating and distributing water, as well as the sale of wholesale telecommunication services through a joint venture with the Port of Skagit. The District also has voter-approved authority for sewer, although the District does not have sewer operations at this time.

The basic financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to statements of a private-sector business. They are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short-term and long-term financial statement information about District activities. The basic financial statements are comprised of:

*The Statement of Net Position:* The District presents its statement of net position using the balance sheet format. The statement provides information on all the District's assets, deferred outflows, liabilities, deferred inflows, and net position at year end. The net position section is separated into three categories; net investment in capital assets; restricted net position; and unrestricted net position. Investment in capital assets reflects the District's investment in capital assets (land, plant, and equipment) less any remaining related debt. Restricted assets represent resources that are subject to external restrictions on how the funds may be used. Restrictions placed on these assets generally relate to constraints derived from grants, loans, or other debt. Unrestricted assets may be used to meet the District's ongoing obligations.

*The Statement of Revenues, Expenses, and Changes in Net Position:* This statement provides information on the District's current year revenues and expenses. Revenues are classified by major source and expenses are classified by function. Revenues and expenses are classed as operating or non-operating based upon the nature of the transaction.

*The Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments for operations as well as funds provided and used by investing and financing activities during the year.

*Notes to the Financial Statements:* The notes to the financial statements are presented at the end of the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**FINANCIAL ANALYSIS**

The following analysis provides a two-year comparison of key financial information.

**Condensed Comparative Statement of Net Position**

| | 2020 | 2019 | Change |
|---|---|---|---|
| Assets | | | |
| Current and other assets | $ 28,932,196 | $ 24,154,130 | 19.78% |
| Capital assets | 187,751,530 | 188,711,663 | -0.51% |
| Total assets | 216,683,726 | 212,865,793 | 1.79% |
| Deferred outflow of resources | 1,263,316 | 1,137,482 | 11.06% |
| Liabilities | | | |
| Current and other liabilities | $ 6,430,262 | $ 6,600,377 | -2.58% |
| Long-term liabilities | 27,965,590 | 29,314,410 | -4.60% |
| Total liabilities | 34,395,852 | 35,914,787 | -4.23% |
| Deferred inflow of resources | 2,194,420 | 2,884,800 | -23.93% |
| Net Position | | | |
| Net investment in capital assets | $ 160,368,007 | $ 159,914,217 | 0.28% |
| Restricted | - | 2,581,508 | -100.00% |
| Unrestricted | 20,988,763 | 12,707,963 | 65.16% |
| Total net position | 181,356,770 | 175,203,688 | 3.51% |

**Capital Assets**

The decrease in capital assets is the result of depreciation and amortization being greater than our acquisition and construction of capital assets due to COVID-19 impacts on construction. For most of the year, construction was constrained by the pandemic, which impacted our capital improvement program.

The following is a summary of the major projects completed in 2020:

- Bulk Fill Station in Sedro-Woolley
- Mountain View Estates Consolidation
- Conversion to the Beacon Mobile AMR System
- Rebuild Chlorite Tanks at the Water Treatment Plant

In addition, there were several projects done by others that were transferred to the District upon acceptance. The following is a summary of the major developer projects completed and accepted in 2020:

- Systima Project Port of Skagit
- Kincaid Development
- Short Plat B&T Enterprises
- Skagit County's Veteran's Park
- HUB City Apartments
- Pump Drive Apartments
- Brickyard Park

The District's 2021 capital budget includes plans for investing over 24 million dollars into capital improvements. Major capital projects planned for the year include:

- Sky Ridge Pipe Replacement
- Burkland Road Pipeline
- Raw Water Pump Station Upgrade
- Judy Water Treatment Plant to Mount Vernon transmission line-Phase 2
- Annual plant replacement and upsizing of infrastructure

*See Note 3 for more information regarding capital asset activity.*

**Long-term Debt**
At year end, the District's long-term debt obligation included Revenue Bonds of $11,489,975, low interest Drinking Water Revolving Fund loans of $9,750,681, Public Works Trust Fund loans of $5,059,761, and a Department of Ecology loan of $1,083,108. Overall debt decreased $1,413,922 from $28,797,446 to $27,383,523 in 2020. Funds for payments of long-term debt are provided from rate revenue cash flow.

*See Note 5 for more information regarding long-term debt activity.*

**Net Position**
The restricted portion of total net position represent resources that are subject to external restrictions on how the funds may be used. Due to bond refinancing, the restricted net position held for bond payments and reserve requirements declined by $2,581,508. The unrestricted portion of net position increased $8,280,800 to end the year at $20,988,763. The District's total net position increased 3.51% to $181,356,770.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Position.

## Condensed Comparative Statement of Revenues, Expenses and Changes to Net Position

| | 2020 | 2019 | Change |
|---|---|---|---|
| Operating revenue | | | |
| Water sales | $ 25,798,774 | $ 24,479,102 | 5.39% |
| Other | 379,917 | 568,484 | -33.17% |
| Total operating revenue | 26,178,691 | 25,047,586 | 4.52% |
| Non-operating revenue | 404,982 | 558,151 | -27.44% |
| **Total revenues** | **26,583,673** | **25,605,737** | 3.82% |
| Operating expenses | | | |
| Operations and Maintenance | 4,379,705 | 4,269,782 | 2.57% |
| Administrative and General | 9,011,671 | 8,434,138 | 6.85% |
| Broadband | 25,627 | 18,277 | 40.21% |
| Taxes | 1,236,048 | 1,203,819 | 2.68% |
| Depreciation | 8,006,784 | 7,552,189 | 6.02% |
| Total operating expenses | 22,659,835 | 21,478,205 | 5.50% |
| Non-operating expenses | 625,819 | 1,449,221 | -56.82% |
| **Total expenses** | **23,285,654** | **22,927,426** | 1.56% |
| Income before contributions | 3,298,019 | 2,678,311 | 23.14% |
| Capital contributions | 2,855,063 | 4,419,614 | -35.40% |
| **Change in net position** | **6,153,082** | **7,097,925** | -13.31% |
| Beginning net position | 175,203,688 | 168,218,011 | 4.15% |
| Prior period adjustment | - | (112,248) | |
| **Ending net position** | **$ 181,356,770** | **$ 175,203,688** | 3.51% |

### Operating Revenues

Water sales increased $1.3 million for the year based in part upon an 5% rate increase, which took effect January 1, 2020. The decrease in non-operating revenue of $153,169 or (-27%) is due to a reduction in yield on investments and the reduction in Federal rebates on revenue bonds that were refunded.

### Operating Expenses

The District is now an asset management centered maintenance organization. Operating expenses increased by $1,181,630 or 5.5% in 2020 due in part to increased preventive maintenance system wide, new pressure release valve and fire hydrant maintenance programs, higher costs in chemicals purchased for water treatment, increase in electrical costs associated with pumping at the Judy Reservoir, and depreciation. Depreciation accounted for $455 thousand of the increase in operating expenses.

**Change in Net Position**
At the end of 2020, the District's total net position increased by $6,153,082. Operating income contributed $3,298,019, while capital contributions of $2,855,063 made up the rest of the increase in net position. Donated plant of $1,103,419 and System Development Fees of $1,235,522 were the two largest components of capital contributions.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioner's approved the 2021 Annual Budget on November 12, 2020. The budget outlines the District's 2021 investments in operations, maintenance, and capital projects to continue to provide high-quality water services to District customers.

In considering the District's budget for 2021, the Board of Commissioners and management incorporated the following estimates:

- Revenue from water sales and charges are expected to increase as the result of a rate increase of 5%.

- Capital contributions are expected to be $2,280,000.

- Operating expenses, excluding depreciation and OPEB, are expected to increase approximately 12% in 2021. Additional staff, investment in our software programs, and professional services for a new facility design, and implementation of a document management system.

- In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of the COVID-19 virus. The length of time these measures will be in place and the full extent of the financial impact on the District is unknown at this time.

## REQUESTS FOR INFORMATION

The basic financial statements, notes, and management discussion and analysis are designed to provide a general overview of the District's finances. If you have any questions about the report or need additional financial information, contact the District Treasurer at:

Public Utility District No. 1 of Skagit County
Attention: Treasurer
Post Office Box 1436
Mount Vernon, Washington 98273-1436

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2020

ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS | | 2020 |
| Cash and cash equivalents | $ | 959,944 |
| Investments | | 22,018,574 |
| Restricted assets | | |
| Receivables | | 97,601 |
| Customer accounts receivable, net | | 3,263,097 |
| Accounts receivable, other | | 130,951 |
| Materials inventory | | 1,559,939 |
| Prepaid expenses | | 466,816 |
| Other current assets | | 1,350 |
| Total current assets | | 28,498,272 |
| NON-CURRENT ASSETS | | |
| Investment in joint ventures | | 49,479 |
| Assessment receivable | | 384,445 |
| Capital assets not being depreciated | | |
| Non-operating property | | 10,000 |
| Land and land rights | | 2,705,739 |
| Earthen impounding reservoir | | 66,161 |
| Construction in progress | | 9,691,901 |
| Capital assets net of accumulated depreciation | | |
| Water Infrastructure | | 162,792,770 |
| Equipment & Machinery | | 5,736,600 |
| Fiber | | 2,529,292 |
| General | | 4,219,067 |
| Total non-current assets | | 188,185,454 |
| Total assets | | 216,683,726 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions | | 964,910 |
| Deferred outflows related to OPEB | | 274,807 |
| Deferred outflows related to ARO | | 23,599 |
| Total deferred outflows of resources | | 1,263,316 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ | 217,947,042 |

*The notes to the financial statements are an integral part of this statement.*

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2020

| LIABILITIES | | |
|---|---|---|
| CURRENT LIABILITIES | | 2020 |
| Accounts payable | $ | 2,766,255 |
| Taxes payable | | 182,742 |
| Customer deposits | | 182,814 |
| Accrued interest on debt | | 221,172 |
| Bonds and loans payable | | 2,907,941 |
| Other current liabilities | | 169,338 |
| Total current liabilities | | 6,430,262 |
| NON-CURRENT LIABILITIES | | |
| Other post-employment benefits | | |
| Compensated absences | | 659,613 |
| Asset retirement obligations | | 29,220 |
| Long-term debt, revenue bonds | | 10,800,705 |
| Long-term debt, loans | | 13,674,877 |
| Net pension liability | | 2,512,185 |
| Total OPEB liability | | 288,990 |
| Total non-current liabilities | | 27,965,590 |
| Total liabilities | | 34,395,852 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions | | 880,200 |
| Deferred inflows related to OPEB | | 1,314,220 |
| Total deferred inflows of resources | | 2,194,420 |
| NET POSITION | | |
| Net investment in capital assets | | 160,368,007 |
| Unrestricted | | 20,988,763 |
| Total net position | | 181,356,770 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | $ | 217,947,042 |

*The notes to the financial statements are an integral part of this statement.*

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

FOR YEAR ENDED DECEMBER 31, 2020

| | 2020 |
|---|---|
| OPERATING REVENUES | |
| Water sales | |
| Residential and multiple | $ 19,042,573 |
| Commercial, industrial and farms | 5,953,560 |
| Resale | 148,481 |
| Irrigation | 654,160 |
| Other sales | 379,917 |
| Total operating revenues | 26,178,691 |
| OPERATING EXPENSES | |
| Supply | 661,604 |
| Treatment | 2,336,591 |
| Transmission and distribution | 1,381,510 |
| Broadband | 25,627 |
| Customer accounts | 1,797,789 |
| Administrative and general | 7,213,882 |
| Utility taxes | 1,236,048 |
| Depreciation and amortization | 8,006,784 |
| Total operating expenses | 22,659,835 |
| Operating income (loss) | 3,518,856 |
| NON-OPERATING REVENUES (EXPENSES) | |
| Interest income | 117,279 |
| LUD interest and penalty income | 19,661 |
| Interest and related charges | (540,053) |
| Federal rebates on revenue bonds | 5,353 |
| Operating grants | 7,079 |
| Gain (loss) on capital asset disposition | (10,804) |
| Broadband, net of related costs | 3,970 |
| Other non-operating revenues | 251,640 |
| Other non-operating expenses | (74,962) |
| Total non-operating revenues (expenses) | (220,837) |
| Income before capital contributions | 3,298,019 |
| CAPITAL CONTRIBUTIONS | |
| Non-donated plant | 148,326 |
| Donated plant | 1,103,419 |
| System development fees | 1,235,522 |
| Services | 302,188 |
| Pipe replacement | 608 |
| Capital grants | 65,000 |
| Total capital contributions | 2,855,063 |
| Change in net position | 6,153,082 |
| NET POSITION - beginning of year | 175,203,688 |
| NET POSITION - end of year | $ 181,356,770 |

*The notes to the financial statements are an integral part of this statement.*

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY

STATEMENT OF CASH FLOWS

FOR YEAR ENDED DECEMBER 31, 2020

| | | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | $ | 25,735,695 |
| Cash payments to suppliers for goods and services | | (4,580,954) |
| Cash payments to employees for services | | (10,424,738) |
| Cash payments for taxes | | (1,304,557) |
| Other cash receipts or (payments) | | 155,304 |
| Net cash provided (used) by operating activities | | 9,580,750 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Cash received from non-capital grants | | 0 |
| Net cash provided (used) for non-capital financing activities | | 0 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | | (6,292,231) |
| Proceeds from sale of capital assets | | 11,946 |
| Principal paid on capital debt | | (15,180,805) |
| Interest paid on capital debt | | (587,213) |
| Federal interest rebates | | 5,353 |
| Bond issues and loan proceeds | | 13,868,610 |
| Grant proceeds | | 65,000 |
| Proceeds from customers for capital purposes | | 2,781,376 |
| Net cash provided (used) for capital and related financing activities | | (5,327,964) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | | (7,349,585) |
| Proceeds from sale or maturity of investments | | 2,798,354 |
| Investment income proceeds | | 151,468 |
| Net cash provided (used) for investing activities | | (4,399,763) |
| Net increase (decrease) in cash and cash equivalents | | (146,977) |
| CASH AND CASH EQUIVALENTS - beginning of year | | 1,106,921 |
| CASH AND CASH EQUIVALENTS - end of year | $ | 959,944 |

*The notes to the financial statements are an integral part of this statement.*

PUBLIC UTILITY DISTRICT NO. 1 OF SKAGIT COUNTY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2020

| | | 2020 |
|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Net operating income (loss) | $ | 3,518,857 |
| | | |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | | 8,006,784 |
| Transfers to construction in progress | | (606,974) |
| Other cash receipts or (payments) | | 155,304 |
| Accounts receivable | | (486,551) |
| Inventory | | 58,371 |
| Other current assets | | (73,249) |
| Accounts payable | | (977,828) |
| Accrued taxes | | (13,964) |
| Net cash provided by operating activities | $ | 9,580,750 |

During the year 2020, plant assets of $148,326 were donated to the District.

*The notes to the financial statements are an integral part of this statement.*

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

These notes are an integral part of the accompanying financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The significant accounting policies are described below.

**Reporting Entity**
Public Utility District No. 1 of Skagit County (the District) is a municipal corporation governed by an elected three-person Commission, authorized under Title 54 RCW. The District is a special purpose government that provides water supply and distribution services. In addition, the District provides wholesale telecommunication services through a joint venture with the Port of Skagit.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

**Basis of Accounting and Presentation**
Accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and are based on the Uniform System of Accounts for Class A and B Water Utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases and construction are capitalized, and unbilled utility service receivables are recorded at year end. Operating revenues are defined as related to the sale of water to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses are defined as related to the operations and maintenance of treating and distributing water, customer service activities and general administration. Non-operating revenues and expenses are all revenues and expenses not meeting these definitions, such as financing and investing activities.

**New Accounting Standards**
GASB has issued the following Statements for which the District has implemented during the current year:

- Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement was implemented within Note 13.
- Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement was implemented within the current period with no effect.
- Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement was implemented within the current period with no effect.
- Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Topics include the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries and terminology used to refer to derivative instruments. These topics were implemented within the current period with no effect.
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRS Code Section 457 Deferred Compensation Plant – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The implementation of Component Unit Criteria within the current period has no effect.

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

**Investments**
See Note 2 – Deposits and Investments

**Receivables**
The District maintains receivables for its water services billings and other miscellaneous billings. Unbilled water service receivables are recorded at year end. It is the District's policy to write off accounts as uncollectible after ninety-days, at which time they are turned over to collection. Any subsequently collected accounts reduce bad debt expense.

**Inventories**
Inventories are valued at average weighted cost, which approximates the market value.

**Restricted Assets and Liabilities**
Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties.

The restricted assets of the District are composed of the following:

| | | |
|---|---|---|
| Special Assessments - Current | | 53,447 |
| Special Assessments - Delinquent | | 44,155 |
| Total Restricted Assets | $ | 97,602 |

**Capital Assets**
Capital assets are defined by the District as assets with individual costs of more than $5,000 and an estimated useful life in excess of two years. The cost of normal maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized when they increase the effectiveness or efficiency of the asset.

Utility plant and other capital assets are recorded at the original cost where the historical cost is known. Where historical cost is not known, assets are recorded at fair market value, as determined by an Engineer's estimate. Donations by developers and customers are recorded at the contract price and donor cost.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | | |
|---|---|---|
| Water Pipe (Transmission, distribution, and supply) | 40 - 50 | years |
| Structures and improvements | 10 - 50 | years |
| Services | 40 | years |
| Intakes, wells, reservoirs, standpipes, and hydrants | 10 - 50 | years |
| Pumping equipment | 20 - 30 | years |
| Meters | 15 | years |
| General plant, furniture, tools, lab, and other equipment | 7 - 50 | years |
| Transportation and power-operated equipment | 3 - 10 | years |

Depreciation is recorded the year following acquisition or construction. When a capital asset is retired, or otherwise disposed of, the original cost is removed from the capital asset account and from accumulated depreciation.

All current and incomplete project costs are included in construction in progress. At project completion, capital costs are reclassified to capital assets while non-capital costs are charged to operating expense. In the event equipment items are acquired through capital lease agreements they would be reported as general capital assets in the statement of net position.

See Note 3 – Capital Assets

**Compensated Absences**
The District maintains a Personal Leave Plan (PL) for vacation, sick, and family leave purposes; accruing based upon an employee's length of service. Personal Leave may be carried forward from year-to-year to a maximum accumulation of 800 hours. Any accumulated Personal Leave balance is paid to the employee at retirement, termination of employment or death. The exception is for employees retiring from the PERS 1 Retirement System. These employees may be paid a maximum of 240 hours compensated leave at retirement. The District records PL as a component of payroll labor load as earned with a liability representing earned leave balances not yet taken.

The District has implemented the Washington State Paid Sick Leave Law. This law requires employees to earn one hour of sick leave for every forty hours worked, this is tracked separately from the paid leave referred to above.

The District administers a voluntary plan for paid family and medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefits, medical leave benefits, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, and premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis.

The District paid $40,200 in claims during 2020 and held $2,408 of employee premiums at fiscal year-end.

The District also maintains a Supplemental Leave Bank which originated during the conversion of the former sick leave plan to the current Personal Leave Plan. The Supplemental Leave Bank is non-accruing, and no portion is payable at termination of employment. It is used solely to supplement short-term or occupational disability for eligible employees.

**Pensions**

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

**Long-Term Debt**

See Note 5 – Long-Term Debt

**Use of Estimates**

The preparation of the financial statements, in conformity with Generally Accepted Accounting Principles (GAAP), requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates may be included in the disclosure of contingent assets and liabilities at the date of the financial statements, and in the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Financial Statement Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

## NOTE 2 – DEPOSITS AND INVESTMENTS

**A. Deposits**

The District's deposits are entirely covered by Federal Depository Insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection

Commission (PDPC). Deposit accounts are reconciled to the District's accounting records at year end, and the book balance of these accounts does not materially differ from the bank balance.

**B. Investments**

Investments are subject to the following risks:

Interest Rate Risk – Interest rate risk is the risk the District may face should interest rate variances affect the fair value of investments. The District's investment policy is to hold investments to maturity whenever possible and therefore maintain maturity dates equal to or less than cash flow requirements. The District's plan is to invest for a two-year maximum maturity although exceptions are possible.

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| **Investment Type** | Fair Value | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| US Bank Investor | $ 28,454 | 28,454 | | | |
| Local Government Investment Pool | $ 21,990,120 | 21,990,120 | - | - | - |

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy conforms with State law which restricts investments of public funds to obligations of the U.S. Government and its agencies, deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP), or deposits with Washington State financial institutions.

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction, the District may not be able to recover the value of the investment or collateral securities. Current investments are held by the District's brokerage firm, which is also the counterparty in those particular securities.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single user. The District's investment policy requires diversification of investments by security type and institution, with the exception of U.S. Treasuries and the Local Government Investment Pool (LGIP).

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The District's investment policy limits investments to U.S. investments.

Investments in Local Government Investment Pool (LGIP)

The District is a voluntary participant in the Local Government Investment Pool (LGIP), which was authorized by Chapter 294, Laws of 1986, and is managed by the Washington State Treasurer in accordance with RCW 43.250. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximated fair value. The LGIP is not rated and not registered with the SEC. LGIP investments are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose any restrictions on participant withdrawals.

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

**Investments Measured at Fair Value**

The District measures and reports investments at fair value using the valuation input hierarchy established by GAAP, as follows:

- Level 1 inputs: quoted prices in the active markets for identical assets.
- Level 2 inputs: significant other observable inputs.
- Level 3 inputs: significant unobservable inputs.

At December 31, 2020, the District had the following investments measured at fair value:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | 12/31/2020 | Level 1 | Level 2 | Level 3 |
| **Investments measured at amortized cost** | | | | |
| US Bank Investor | 28,454 | | | |
| Local Government Investment Pool | 21,990,120 | | | |
| **Total Investments in Statement of Net Position** | $ 22,018,574 | | | |

**C. Summary of Deposit and Investment Balances**

Reconciliation of the District's deposits and investment balances as of December 31, 2020, is as follows:

| | Water Fund |
|---|---|
| Cash on Hand | $ 1,200 |
| Amount of Deposits with Financial Institutions | 958,744 |
| Non-Pooled Investments | 28,454 |
| Deposits in State LGIP | 21,990,120 |
| **Total Deposits & Investments** | **$ 22,978,518** |
| | |
| **Deposits** | |
| Current: | |
| Cash & Cash Equivalents | $ 959,944 |
| Restricted Cash & Cash Equivalents | - |
| Noncurrent: | |
| Restricted Cash & Cash Equivalents | - |
| **Total Deposits** | 959,944 |
| | |
| **Investments** | |
| Current: | |
| Short-Term Investments | 22,018,574 |
| Restricted Short-Term Investments | - |
| Noncurrent: | |
| Restricted Investments | - |
| Other Investments | - |
| **Total Investments** | 22,018,574 |
| **Total Deposits & Investments** | **$ 22,978,518** |

## NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

| | Beginning | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Non-operating property | $ 10,000 | $ - | $ - | $ 10,000 |
| Land and land rights | 2,612,052 | 93,687 | - | 2,705,739 |
| Earthen impounding reservoir | 66,161 | - | - | 66,161 |
| Construction in progress | 6,626,173 | 6,952,459 | (3,886,731) | 9,691,901 |
| Total capital assets not being depreciated | 9,314,386 | 7,046,146 | (3,886,731) | 12,473,801 |
| Capital assets being depreciated: | | | | |
| Water Infrastructure | 239,580,864 | 2,759,470 | (158,207) | 242,182,127 |
| Equipment | 13,306,336 | 634,212 | (3,008) | 13,937,540 |
| Fiber | 2,803,620 | 151,986 | - | 2,955,606 |
| General | 9,045,270 | 342,448 | (239,385) | 9,148,333 |
| Total capital assets being depreciated | 264,736,090 | 3,888,116 | (400,600) | 268,223,606 |
| Accumulated depreciation for: | | | | |
| Water Infrastructure | (73,062,990) | (6,480,299) | 153,932 | (79,389,357) |
| Equipment | (7,466,021) | (735,702) | 783 | (8,200,940) |
| Fiber | (332,860) | (93,454) | - | (426,314) |
| General | (4,476,943) | (691,708) | 239,385 | (4,929,266) |
| Total accumulated depreciation | (85,338,814) | (8,001,163) | 394,100 | (92,945,877) |
| Total utility plant being depreciated, net | 179,397,276 | (4,113,047) | (6,500) | 175,277,729 |
| TOTAL CAPITAL ASSETS, NET | $ 188,711,662 | $ 2,933,099 | $ (3,893,231) | $ 187,751,530 |

The Judy System is the District's primary water system. The water supply sources for the Judy System are located on the Skagit River and four Cultus Mountain tributary streams. The District's water rights have been aggregated over time from pre-1917 through 1997. These transactions usually include: all related property consisting of and associated with the water system, wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities.

The District has reviewed the applicability of GASB 51, which addresses the reporting of intangible assets. Included under the definition of intangible assets are water rights if they are identifiable. GASB 51, leaves the reporting of intangible assets acquired prior to the effective date June 15, 2009, with an indefinite life as an option to the reporting entity. For these reasons, the District has determined that any water rights value is included in the fixed assets as reported. Future District intangible assets will be reported on the District's financial statements under GASB 51.

## NOTE 4 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has active construction projects as of December 31, 2020 in the amount of $9,691,901; these are included in Construction in progress on the Statement of Net Position.

As of December 31, 2020, the District's commitments with contractors are as follows:

| Project | Spent to Date | Remaining Commitment |
|---|---|---|
| Judy Reservoir to Mount Vernon Transmission Line-Phase II | $ 271,398 | $ 1,108,359 |
| Judy to Sedro Woolley Pipeline Leak Detection | 0 | 40,713 |
| WSDOT SR534 Pipeline Relocation | 2,513 | 30,227 |
| Janicki Fish Screen Walkway | 20,716 | 4,039 |
| Little Mountain Sky Ridge Reservoir Road and Pipeline | 0 | 22,360 |
| Mountain View Estates Consolidation | 613,364 | 31,313 |
| PUD Campus Replacement | 356,172 | 1,344,463 |
| N. 18th St, E Division to Highland, Fir St, N LaVenture to N 30th | 803,172 | 482,460 |
| Raw Water Pump Station Upgrade | 5,074 | 2,867,149 |
| Little Mountain Road, East Blackburn Road to Amick Road | 737,393 | 521,573 |
| Panorama Storage Tank | 52,251 | 12,600 |
| Backwash Pump Replacement | 20,560 | 54,978 |
| Document Management System | 27,275 | 224,094 |
| SR538 Logan Creek Bored Crossing | 0 | 32,657 |

Of the $9,686,673 committed balance, the District has a non-revolving line of credit for the purpose of funding the Judy Reservoir to Mount Vernon Transmission Line-Phase II project. The remaining projects will be funded by water rate revenue.

## NOTE 5 – LONG-TERM DEBT

### Long-Term Debt

The District issues revenue bonds and has loans obtained through State and Federal programs to finance the acquisition of property, equipment or construction of improvements or replacements of the existing water infrastructure per the capital improvement schedule. All District long-term debt is repaid using the water rate revenue and receipts from special assessments.

During 2020, the District issued a $25,000,000 Direct Placement Water Revenue Improvement and Refunding Bond. The twenty-year bond was issued at par and bears interest at 2.65%. The 2020 proceeds of $12,185,953 were used primarily to retire the outstanding principal balance of the Series 2009B Water Revenue Bond (Build America Bonds), the 2016 Direct Placement Water Revenue Bond, and the 2017 Direct Placement Water Revenue Bond. The remaining $12,814,047 is a non-revolving line of credit for the purpose of providing funds to pay the cost of constructing the Judy Reservoir to Mount Vernon water transmission line and other capital projects and set to expire December 31, 2021. The District did not utilize this line of credit in 2020 but does plan to in 2021.

Long-term debt currently outstanding are as follows:

| | Maturity Range | Stated Interest Rate | Original Amount | Amount of Installment |
|---|---|---|---|---|
| Direct Placement, 2020 (Water Revenue Bond) | 2020 - 2040 | 2.65% | 25,000,000 | 689,268 |
| Drinking Water State Revolving Fund Loan #01-65101-026 | 2008 - 2022 | 1.50% | 77,520 | 5,168 |
| Drinking Water State Revolving Fund Loan #01-65101-027 | 2005 - 2022 | 1.50% | 1,758,480 | 110,538 |
| Drinking Water State Revolving Fund Loan #01-65120-028 | 2005 - 2021 | 1.50% | 1,803,360 | 106,520 |
| Drinking Water State Revolving Fund Loan #01-65120-036 | 2005 - 2021 | 1.50% | 64,619 | 4,068 |
| Drinking Water State Revolving Fund Loan #01-65120-037 | 2004 - 2021 | 1.50% | 704,070 | 39,728 |
| Drinking Water State Revolving Fund Loan #DM13-952-134 | 2018 - 2037 | 1.50% | 10,004,050 | 500,203 |
| Drinking Water State Revolving Fund Loan #DWL23457 | 2019 - 2039 | 1.50% | 872,077 | 48,084 |
| Public Works Board Loan# PW-02-691-047 | 2004 - 2022 | 0.50% | 10,000,000 | 562,494 |
| Public Works Board Loan# PW-01-691-057 | 2003 - 2021 | 0.50% | 10,000,000 | 542,424 |
| Public Works Board Loan# PC12-951-059 | 2013 - 2031 | 0.25% | 3,342,154 | 176,283 |
| Public Works Board Loan# PC20-96103-058 | 2020 - 2039 | 1.58% | 6,494,164 | 72,662 |
| Department of Ecology Loan# EL170140 | 2019-2038 | 1.00% | 1,156,612 | 50,501 |
| Totals | | | | $ 2,907,941 |

The annual debt service requirements to maturity for debt from direct placements are as follows:

| Year Ending | Direct Placement Bonds Debt Service | | |
|---|---|---|---|
| Dec 31st | Principal | Interest | Total |
| 2021 | $ 689,268 | $ 304,599 | $ 993,867 |
| 2022 | 702,542 | 286,334 | 988,876 |
| 2023 | 728,914 | 267,716 | 996,630 |
| 2024 | 746,011 | 248,400 | 994,411 |
| 2025 | 765,195 | 228,631 | 993,826 |
| 2026 - 2030 | 3,826,678 | 1,093,468 | 4,920,146 |
| 2031 - 2035 | 3,075,937 | 376,037 | 3,451,974 |
| 2036 - 2039 | 959,766 | 33,998 | 993,764 |
| Totals | $ 11,494,311 | $ 2,839,183 | $ 14,333,494 |

The annual debt service requirements to maturity for debt from State Loans are as follows:

| Year Ending Dec 31st | State Loans Payable Debt Service Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 2,218,672 | $ 202,759 | $ 2,421,431 |
| 2022 | 1,526,952 | 182,411 | 1,709,363 |
| 2023 | 849,791 | 167,010 | 1,016,801 |
| 2024 | 850,852 | 156,137 | 1,006,989 |
| 2025 | 851,934 | 145,241 | 997,175 |
| 2026 - 2030 | 4,276,686 | 561,995 | 4,838,681 |
| 2031 - 2035 | 3,602,085 | 288,782 | 3,890,867 |
| 2036 - 2040 | 1,716,578 | 45,699 | 1,762,277 |
| 2041 | 0 | 0 | 0 |
| Totals | $ 15,893,550 | $ 1,750,034 | $ 17,643,584 |

As of December 31, 2020, the District has $1,487,997 available in debt service funds to service the direct placement water revenue bonds and state loans.

The District is in compliance with all significant limitations and restrictions associated with their bonds including with federal arbitrage requirements. The District spends bond proceeds within the allowable period of time to avoid a negative arbitrage position.

**Changes in Long-term Liabilities**

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

| Description | Beginning Balance 1/1/2020 | Additions | Reductions | Ending Balance 12/31/2020 | Due within one Year |
|---|---|---|---|---|---|
| Revenue Bonds Payable | | | | | |
| Revenue Bonds | $ 2,955,000 | | $ 2,955,000 | $ - | $ - |
| Total Revenue Bonds Payable | 2,955,000 | 0 | 2,955,000 | 0 | 0 |
| | | | | | |
| Debt from Direct Placements | | | | | |
| Direct Placement | 9,426,938 | 12,185,953 | 10,122,916 | 11,489,975 | 689,269 |
| Total Direct Placement Payable | 9,426,938 | 12,185,953 | 10,122,916 | 11,489,975 | 689,269 |
| | | | | | |
| Long-term Debt Payable | | | | | |
| Drinking Water Revolving Fund Loans | 9,764,638 | 758,228 | 772,185 | 9,750,681 | 814,308 |
| Department of Ecology Loan | 1,132,610 | | 49,502 | 1,083,108 | 50,501 |
| Public Works Trust Fund Loans | 5,518,261 | 822,701 | 1,281,201 | 5,059,761 | 1,353,863 |
| Total Long-term Debt Payable | 16,415,509 | 1,580,929 | 2,102,888 | 15,893,550 | 2,218,672 |
| | | | | | |
| Other Long-term Liabilities | | | | | |
| Compensated Absences | 1,061,534 | 728,510 | 214,669 | 1,575,375 | N/A |
| Pension Liability | 2,391,632 | 120,553 | | 2,512,185 | N/A |
| Total OPEB Liability | 288,990 | | 12,887 | 276,103 | N/A |
| Total Other Long-term Liabilities | 3,742,156 | 849,063 | 227,556 | 4,363,663 | 0 |
| | | | | | |
| Total Long-term Liabilities | $32,539,603 | $14,615,945 | $15,408,360 | $31,747,188 | $2,907,941 |

## NOTE 6 – SPECIAL ASSESSMENTS

The District receives annual installments on outstanding special assessments, which have remaining terms ranging from 1 to 20 years. Outstanding assessments receivable consist of current and delinquent assessments and related interest and penalties. As of December 31, 2020, $44,155 of special assessments was delinquent. There is minimal risk to collecting special assessment amounts since a lien is formed on each individual property.

## NOTE 7 – TELECOMMUNICATION SERVICES

In 2009, the District started providing wholesale telecommunications services to Internet Service Providers. Revenue from the telecommunication activity is included in Broadband Sales in the Statement of Revenue, Expenses and Changes in Net Position.

| | **2020** |
|---|---|
| Operating Revenues: | |
| Wholesale Fiber Services to ISP | $9,533 |
| | |
| Operating Expenses: | |
| Administration and General | $25,627 |
| | |
| Capital Investment: | |
| Current Year | $151,986 |
| Cumulative (Since 2009) | $2,955,606 |

## NOTE 8 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2020:

| **Aggregate Pension Amounts - All Plans** | | |
|---|---|---|
| Pension liabilities | $ | (2,512,185) |
| Pension assets | $ | - |
| Deferred outflows of resources | $ | 964,910 |
| Deferred inflows of resources | $ | (880,200) |
| Pension expense | $ | 215,346 |

**State Sponsored Pension Plans**

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

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

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

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

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

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

**<u>Contributions</u>**
The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

| PERS Plan 1 | | |
|---|---|---|
| **Contribution Rates** | **Employer** | **Employee** |
| January - August 2020: | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.76% | |
| Administrative Fee | 0.18% | |
| **Total** | **12.86%** | **6.00%** |
| September - December 2020: | | |
| PERS Plan 1 | 7.92% | 6.00% |
| PERS Plan 1 UAAL | 4.87% | |
| Administrative Fee | 0.18% | |
| **Total** | **12.97%** | **6.00%** |

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

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

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

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

## Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payrolls) for 2020 were as follows:

| PERS Plan 2/3 | | |
|---|---|---|
| **Contribution Rates** | **Employer 2/3** | **Employee 2** |
| January - August 2020: | | |
| PERS Plan 2/3 | 7.92% | 7.90% |
| PERS Plan 3 Employee | | Varies |
| PERS Plan 1 UAAL | 4.76% | |
| Administrative Fee | 0.18% | |
| **Total** | **12.86%** | **7.90%** |
| **Contribution Rates** | **Employer 2/3** | **Employee 2** |
| September - December 2020: | | |
| PERS Plan 2/3 | 7.92% | 7.90% |
| PERS Plan 3 Employee | | Varies |
| PERS Plan 1 UAAL | 4.87% | |
| Administrative Fee | 0.18% | |
| **Total** | **12.97%** | **7.90%** |

The District's actual PERS plan contributions were $342,285 to PERS Plan 1 and $545,123 to PERS Plan 2/3 for the year ended December 31, 2020.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study.*

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

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

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

There were changes in methods and assumptions since the last valuation.

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Join-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- This valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed their method to updating certain data items that change annually. Examples include the public safety duty-related death lump sum payment and Washington state average wage. OSA has set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience study in 2025.

**Discount Rate**
The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test was completed to test whether each pension plans fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on the assumptions described in the OSA's certification letter within the DRS CAFR, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

**Long-Term Expected Rate of Return**
OSA selected a 7.40% long-term expected rate of return on pension plan investments 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 (CMAs) and simulated expected investment returns the WSIB provided.

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:
• Expected annual return.
• Standard deviation of the annual return.
• Correlations between the annual returns of each asset class with every other asset class.

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

**Estimated Rates of Return by Asset Class**
Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

**Sensitivity of Net Pension Liability/(Asset)**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

| | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|---|---|---|---|
| PERS Plan 1 | $ 2,176,387 | $ 1,737,555 | $ 1,354,849 |
| PERS Plan 2/3 | $ 4,819,957 | $ 774,630 | $ (2,556,698) |

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2020, the District reported a total pension liability of $2,512,185 for its proportionate share of the net pension liabilities as follows:

| Pension Liability (or Asset) | |
|---|---|
| PERS Plan 1 | $ 1,737,555 |
| PERS Plan 2/3 | $ 774,630 |

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

| | Proportionate Share 6/30/19 | Proportionate Share 6/30/20 | Change in Proportion |
|---|---|---|---|
| PERS Plan 1 | 0.047425% | 0.049215% | 0.001790% |
| PERS Plan 2/3 | 0.058473% | 0.060568% | 0.002095% |

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 Non-employer Allocations* for all plans except LEOFF 1.

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

**Pension Expense**

For the year ended December 31, 2020, the District recognized pension expense as follows:

| Pension Expense | | |
|---|---|---|
| PERS Plan 1 | $ | 158,417 |
| PERS Plan 2/3 | $ | 56,929 |
| **Total** | $ | 215,346 |

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

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PERS Plan 1 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ - |
| Net difference between projected and actual investment earnings on pension plan investments | - | (9,674) |
| Changes of assumptions | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | 196,509 | |
| **TOTAL** | **$ 196,509** | **$ (9,674)** |

| PERS Plan 2/3 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 277,306 | $ (97,080) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (39,340) |
| Changes of assumptions | 11,033 | (529,139) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 165,970 | (204,967) |
| Contributions subsequent to the measurement date | 314,091 | |
| **TOTAL** | **$ 768,401** | **$ (870,526)** |

| Aggregate Pension Amounts - All Plans | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 277,306 | $ (97,080) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (49,014) |
| Changes of assumptions | 11,033 | (529,139) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 165,970 | (204,967) |
| Contributions subsequent to the measurement date | 510,600 | - |
| **TOTAL** | **$ 964,910** | **$ (880,200)** |

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | PERS 1 | PERS 2/3 |
|---|---|---|
| 2021 | $ (43,901) | $ (347,134) |
| 2022 | (1,381) | (102,541) |
| 2023 | 13,395 | (11,941) |
| 2024 | 22,212 | 69,535 |
| 2025 | - | (1,145) |
| Thereafter | - | (22,991) |
| **Total** | **$ (9,674)** | **$ (416,217)** |

**Deferred Compensation Plans**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan provides employees an opportunity to voluntarily defer contributions through a pre-tax payroll deduction up to the amount established annually by the Internal Revenue Service (IRS). Deferred compensation is available to employees following separation of employment, retirement, death, or an unforeseeable emergency without penalty as defined in the IRS Code. The plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and are not included in the District's financial statements.

There are two plans available to all District employees. One is administered through the Washington State Department of Retirement Systems (DRS) and the other through Empower Retirement. All contributions are made by the employee.

**Western Conference of Teamsters Pension Plan**

Substantially all the District's full-time and qualifying part-time represented employees participate in the Western Conference of Teamsters Pension Plan (the Plan) administered by the Western Conference of Teamsters Pension Trust Fund Board of Trustees, under a cost-sharing, multiple-employer defined benefit pension plan. The Board of Trustees has the power to amend or terminate the Plan. Additional information can be obtained by writing to Western Conference of Teamster Pension Trust Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

The District began participation in the Plan per the collective-bargaining agreement effective January 1, 2013. The District's contributions are defined as $0.50 per paid hour by the District for represented employees. Effective January 1, 2018, the represented employees agreed to the contribution rate of $3.25 per paid hour by the District and are able to increase the rate at the beginning of the year. The current collective-bargaining agreement expires December 31, 2021.

The Plan provides retirement, disability, and death benefits. Retirement benefits are determined by applying the benefit percentage to the total annual contributions for each year and adding all the results for all years together for the monthly contributory service benefit. The benefit percentage differs year to year. Participants are eligible for retirement with at least five years of vesting service at age 55, or two years of vesting service at age 65. Members retiring prior to age 65 may receive reduced benefits. Additional details of the Plan are as follows:

| **For the year ended December 31, 2020** | |
|---|---|
| Number of employees covered | 34 |
| Amount of contributions | $36,832 |
| Employer contribution rate | $ 0.50 per hour paid |
| Employee contribution rate | $ 3.25 per hour paid |

The District contributed 100% of its required amount for year ending December 31, 2020. If, the District chooses to stop participating in the plan, the District may be required to pay the plan an amount based on the underfunded status of the plan. However, cessation of participation is subject to the collective bargaining process, thus there is no unfunded liability on the District's part.

## NOTE 9 – CONTINGENCIES AND LITIGATIONS

The District has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the District will have to make payment. In the opinion of management, the District's insurance policies are adequate to pay all known or pending claims.

The District participates in a few Federal and State-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. District management believes that such disallowances, if any, will be immaterial.

## NOTE 10 – RISK MANAGEMENT

### Liability and Property-Enduris

The District is a member of Enduris Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to individually or jointly self-insured risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there were 547 members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

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

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values.

The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $800 million per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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

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

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

A Board of Directors consisting of seven board members governs Enduris. Its members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have any claim settlements that exceeded limits in the last three years.

**Liability and Property-PURMS**
The District was formally a member of the Public Utility Risk Management Services Self-Insurance fund (PURMS) for liability and property. After termination of membership, the District is still responsible for contributions for its share of any unresolved, unreported and in-process claims for the period of membership. During 2020, the District paid $ 3,111 for liability general assessments to PURMS.

As of December 31, 2020, there were 65 known incidents or unresolved liability claims pending against one or more members or former members of the liability pool ("pending liability claims"). The total dollar amount of the risk posed by these pending liability claims to such members and to the liability pool itself is not precisely determinable and can only be estimated by the Administrator. However, the case reserves set by the Administrator for these claims were $1,125,046.

Because the total dollar amount of the risk posed by the liability pool's "unpaid claims" liability is based on case reserves estimated by the Administrator and because the amount of "incurred but not reported" claims is based on an actuarial report prepared by a retained actuary, the letter provides no opinion and makes no representation as to the risk the total "unpaid claims" liability at any confidence level poses to the solvency of the pool. However, as a contractual matter, the inter-local agreement requires participating members to pay their assessments within thirty days of the date they are issued.

**Health & Welfare Risk Pool**
PURMS provides health and welfare insurance coverage for the employees of each of its Members participating in the Health & Welfare Risk Pool (H&W Pool) in accordance with the terms of the Health & Welfare Coverage of the SIA (H&W Coverage) and the terms of each member's respective Coverage Booklet provided to its Employees. The H&W Pool was established as one of PURMS' risk pools effective March 31, 2000.

Under the terms of the Interlocal Agreement and the H&W General Assessment Formula, the H&W Pool is funded with cash reserves (H&W Pool Reserves) in an amount approximately equal to the sum of three times the amount of each Member's historical average monthly H&W Claims Experience (Pool Claims Experience Reserves) for its respective Employees and their Dependents. Unless required otherwise by the H&W Pool Funding Methodology, the Pool Claims Experience Reserves is deemed to be its designated H&W Pool Reserves. The H&W Pool Members' H&W Claims Experience was reevaluated and recalculated in July 2020, establishing the Designated H&W Pool Reserves at $4,028,344. Specifically, under the H&W Assessment Formula, each month, each member of the H&W Pool is assessed for (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees; and (b) for such member's share of Shared H&W Costs. Shared H&W Costs consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO charges, and Shared H&W Claims.

PURMS and each of PURMS risk pools are audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides audited financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. On an annual basis, PURMS engages the services of the accounting firm Moss Adams to perform a claims audit for each of the Risk Pools.

**Unemployment Benefits**
Unemployment benefits are provided by the District as a "reimbursable employer" with the Washington State Department of Employment Security. Unemployment compensation is paid to eligible individuals by the Washington State Department of Employment Security and the District is subsequently billed for

actual costs. As a result, the District will experience periods of fluctuating costs, depending on the number and size of eligible claims each year. These costs are immaterial to the District's financial statements.

## NOTE 11 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2020.

| Aggregate OPEB Amounts - All Plans | |
|---|---|
| OPEB Liabilities | ($288,990) |
| OPEB Assets | $0 |
| Deferred outflows of resources | $274,807 |
| Deferred inflows of resources | ($1,314,220) |
| OPEB expenses | ($50,688) |

### Plan Description

In addition to the pension benefits described in Note 8, the District provides a single-employer health and welfare benefit plan in accordance with RCW 41.04.208. The Skagit County PUD Postretirement Health Plan was established and may be amended by action of the Skagit PUD Board of Commissioners and is provided through the Public Utility Risk Management Services (PURMS).

All employees that meet PERS retirement requirements are eligible to participate in the District's postretirement health plan. In addition, Commissioners who serve at least one six-year term and have been re-elected for a second term of office shall be eligible for coverage under this policy. Employees and commissioners must opt into the postretirement health plan at time of separation. The surviving spouse of a retiree who is covered at the time of the retiree's death may continue his/her coverage until the time of the surviving spouse's death. A new spouse to a surviving spouse is not eligible for this coverage. In the event of a divorce after retirement, the spouse of the retired employee will not be eligible to remain on the District's plan. COBRA benefits will be offered to the divorced spouse according to statutory regulations.

### Funding Policy

The District establishes contribution requirements on an annual basis. Plan contributions for retirees are reduced upon eligibility for Medicare, regardless if Medicare enrollment occurs. The premium charged to the retirees is based on the District's experience for all members of its health and welfare plan, as determined by the PURMS Self-Insurance Fund. Costs in excess of the retirees' contributions are covered by the District on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The District's OPEB plan contributions were $57,483 for the year ended December 31, 2020.

### Employees Covered by Benefit Terms

At December 31, 2020, the following employees were covered by the benefit terms:

| | |
|---|---|
| Retirees receiving benefits | 18 |
| Spouses of current retirees | 11 |
| Surviving spouses receiving benefits | 3 |
| Active employees | 84 |
| Total | 116 |

**Actuarial Cost Method and Assumptions**

The District's Total OPEB Liability is calculated using the Entry Age Actuarial Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each active employee included in the valuation is allocated as a level percentage of pay for each year of employment between entry age (age at hire) and assumed exit age (until maximum retirement age). The portion of this actuarial present value allocated to a valuation year is called the service cost for each active employee. The sum of these individual service costs is the Plan's Service Cost for the valuation year. The present value of benefits for current retirees plus the accumulated value of all prior Service Costs is the Total OPEB Liability. These actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Assumptions regarding retirement, disability, turnover, mortality, and spousal age are based upon the Washington State Public Employee's Retirement System (PERS) Plan 2 as shown in the *2007-2012 Experience Study* by the office of the State Actuary for the Washington State Public Retirement System. Most active members at the District are covered under PERS 2. The discount rate is based upon 20 Year Tax-Exempt Municipal Bond Yield.

| Assumptions | |
|---|---|
| Discount Rate | 2.74% |
| Inflation Assumption Rate | 2.2% |
| Wage Scale | 3.5% |
| Health Care Trend Rate | 5.9% |

**Sensitivity Analysis**

The following presents the total OPEB liability of the District, calculated using the discount rate of 2.12 percent, as well as what the District's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.12 percent) or one percentage point higher (3.12 percent) than the current rate.

| | **1% Decrease (1.74%)** | **Current Discount Rate (2.74%)** | **1% Increase (3.74%)** |
|---|---|---|---|
| Total December 31, 2020 OPEB liability | $273,459 | $288,990 | $293,296 |

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rate of 5.9 percent, as well as what the District's OPEB liability would be if it were calculated using trend rate that is one percentage point lower (4.9 percent) or one percentage point higher (6.9 percent) than the current trend rate.

| | 1% Decrease (4.9%) | Current Healthcare Cost Trend Rate (5.9%) | 1% Increase (6.9%) |
|---|---|---|---|
| Total December 31, 2020 OPEB liability | $270,400 | $288,990 | $304,861 |

**Changes in Total OPEB Liability**

| Changes in Total OPEB Liability | Increase (Decrease) Total OPEB Liability |
|---|---|
| Balance as of December 31, 2019 | $ 1,406,449 |
| Changes for the year: | |
| Service cost | 59,834 |
| Interest on total OPEB liability | 58,545 |
| Effect of plan changes | 0 |
| Effect of economic/demographic gains or losses | 225,251 |
| Effect of assumptions changes or inputs | (1,383,636) |
| Expected benefit payments | (77,453) |
| Balance as of December 31, 2020 | $ 288,990 |

The Total OPEB Liability was determined using the most recent actuarial valuation completed in 2019 with a valuation date of January 1, 2020. This is the date as of which the census data is gathered, and the actuarial valuation is performed. The Total OPEB Liability was calculated as of the valuation date with a measurement date of December 31, 2019.

There were changes in methods and assumptions since the last valuation.

- The medical trend rates were updated to better anticipate future increases
- The discount rate was decreased from 4.10% to 2.74%, based on the 20 Year Tax-Exempt Municipal Bond Yield
- The inflation rate was decreased from 2.3% to 2.2%
- Retiree claims costs were updated to reflect experience from 2017 through 2019 as well as current demographic data

The benefit terms did not change since the last valuation.

For the year ended December 31, 2020, the District recognized ($11,632) as pension expense.

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

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Inflows of Resources | Deferred Outflows of Resources |
|---|---|---|
| Differences between expected and actual experience | | $201,030 |
| Changes of assumptions | ($1,314,220) | $34,721 |
| Payments subsequent to the measurement date | N/A | $39,056 |
| Total | ($1,314,220) | $274,807 |

Deferred outflows of resources include $39,056 resulting from payments subsequent to the measurement date to be recognized as a reduction of the total OPEB liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended December 31: | |
|---|---|
| 2021 | ($130,011) |
| 2022 | ($130,011) |
| 2023 | ($130,011) |
| 2024 | ($130,011) |
| 2025 | ($130,011) |
| Thereafter | ($428,414) |

**NOTE 12 – JOINT VENTURES**

In May of 2018, the District, along with the Port of Skagit County, entered into an operating agreement creating SkagitNet LLC. The purpose of the newly formed entity is a partnership between the District and the Port to jointly own and operate a network of open access wholesale telecommunication services to the residents, businesses, and public agencies in Skagit County.

SkagitNet LLC is jointly governed by the District's Board of Commissioners and Port Commission.

Net profit or net loss for any fiscal year of SkagitNet, LLC shall be allocated among the members in accordance with their respective percentage interests, using formulas as set forth in the Joint Network Interlocal Operating Agreement of SkagitNet, LLC, dated and effective as of May 16, 2018. The investment in SkagitNet LLC consists of the District's share of income to date of $49,479. Summarized financial information of the joint venture for December 31, 2020 is as follows:

| | 2020 | 50% Share |
|---|---|---|
| Current Assets | $ 103,308 | $ 51,654 |
| Long Term Assets | | |
| Total Assets | $ 103,308 | $ 51,654 |
| | | |
| Current Liabilities | $ 4,350 | $ 2,175 |
| Tota Liabilities | 4,350 | 2,175 |
| | | |
| Retained Earnings | 5,211 | 2,606 |
| Net Income | 93,747 | 46,874 |
| Total Equity | 98,958 | 49,479 |
| | | |
| Total | $ 103,308 | $ 51,654 |

Financial Statements are prepared and submitted to the Washington State Auditor each year.

**NOTE 13 – ASSET RETIREMENT OBLIGATIONS (ARO)**

The District has evaluated potential asset retirement obligations associated with the retirement of tangible capital assets and has identified the following:

- Decommissioning of the wells servicing satellite systems
- Decommissioning of the earthen impounded reservoir at the Water Treatment Plant

The Department of Ecology requires specific steps to be taken when decommissioning a well. Based upon these requirements, an ARO has been determined for the wells servicing satellite systems. Based upon the cost for a well the District recently decommissioned, a cost per foot in depth was calculated and applied to the depth of each current well. A total estimate of $29,220 was calculated for the wells. This has been amortized over the remaining lives of each well, which ranges from 3 years to 18 years. In 2020 $5,621 was amortized.

As the District has no plans to retire the earthen impounded reservoir at the Water Treatment Plant, the timing and extent of any liabilities associated with operations is not determinable at this time. An ARO will be recorded if future events warrant a change.

**NOTE 14 – SUBSEQUENT EVENTS**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.
The District is incurring ongoing expenses directly associated with COVID-19 virus and the Governor's "Stay Home, Stay Healthy" proclamation.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2020

**Schedule of Changes in Total OPEB Liability and Related Ratios**

| | Fiscal Year Ending | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Total OPEB Liability - beginning** | $1,406,449 | $1,460,733 | $1,363,177 |
| Service Cost | 59,834 | 68,847 | 61,878 |
| Interest on total OPEB liability | 58,545 | 51,373 | 52,583 |
| Effects of plan changes | 0 | 0 | 0 |
| Effect of assumption changes or inputs | (1,383,636) | (101,560) | 51,656 |
| Expected benefit payments | (77,453) | (72,944) | (68,561) |
| Effect of economic/demographic gains or (losses) | 225,251 | 0 | 0 |
| **Total OPEB Liability - ending** | $288,990 | $1,406,449 | $1,460,733 |
| **Covered employee payroll** | $6,784,587 | $6,460,072 | $5,976,287 |
| **Total OPEB liability as a % of covered payroll** | 4.26% | 21.77% | 24.44% |

**Notes to Schedules:**
*Until a full 10-year trend is compiled, only information for those years available is presented.

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

The medical trend rate assumes that over time, deductibles, and out-of-pocket maximums will be periodically adjusted as medical trends change.

The discount rate used is 2.12%, which is based upon a 20 Year Tax-Exempt Municipal Bond Yield.

See accompanying Note 11 to the Financial Statements

## Pension Plans – State Sponsored

**Public Utility District No 1 of Skagit County**
**Schedule of Proportionate Share of the Net Pension Liability**
**As of June 30, 2020**

PERS 1

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.049215% | 0.047425% | 0.043669% | 0.046518% | 0.053832% | 0.050722% |
| Employer's proportionate share of the net pension liability | $ 1,737,555 | $ 1,823,660 | $ 1,950,272 | $ 2,207,315 | $ 2,891,032 | $ 2,653,232 |
| Covered payroll* (all plans since 2/3 also contribute to 1) | $ 6,956,964 | $ 7,577,447 | $ 6,398,523 | $ 5,711,522 | $ 5,769,868 | $ 5,582,760 |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 24.98% | 24.07% | 30.48% | 38.65% | 50.11% | 47.53% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.64% | 67.12% | 63.22% | 61.24% | 57.03% | 59.10% |

**Public Utility District No 1 of Skagit County**
**Schedule of Proportionate Share of the Net Pension Liability**
**As of June 30, 2020**

PERS 2/3

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Employer's proportion of the net pension liability (asset) | 0.060568% | 0.058473% | 0.053541% | 0.057049% | 0.063301% | 0.059616% |
| Employer's proportionate share of the net pension liability | $ 774,630 | $ 567,972 | $ 914,165 | $ 1,982,180 | $ 3,187,155 | $ 2,130,114 |
| Covered payroll* (plan 2/3 only) | $ 6,834,464 | $ 6,399,042 | $ 6,279,651 | $ 5,593,115 | $ 5,559,695 | $ 5,349,255 |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | 11.33% | 8.88% | 14.56% | 35.44% | 57.33% | 39.82% |
| Plan fiduciary net position as a percentage of the total pension liability | 97.22% | 97.77% | 95.77% | 90.97% | 85.82% | 89.20% |

**Public Utility District No 1 of Skagit County**
**Schedule of Employer Contributions**
**For the year ended December 31, 2020**

Last 10 Fiscal Years*

PERS 1

| | | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $ | 342,285 | 345,052 | 330,551 | 300,775 | 290,163 | 263,235 |
| Contributions in relation to the statutorily or contractually required contributions | $ | (342,285) | (345,052) | (330,551) | (300,775) | (290,163) | (263,235) |
| Contribution deficiency (excess) | $ | 0 | 0 | 0 | 0 | 0 | 0 |
| Covered payroll | $ | 6,978,950 | 6,784,587 | 6,352,604 | 5,976,287 | 5,882,031 | 5,723,298 |
| Contributions as a percentage of covered payroll | % | 4.90% | 5.09% | 5.20% | 5.03% | 4.93% | 4.60% |

**Public Utility District No 1 of Skagit County**
**Schedule of Employer Contributions**
**For the year ended December 31, 2020**

Last 10 Fiscal Years*

PERS 2/3

| | | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|
| Statutorily or contractually required contributions | $ | 545,123 | 514,237 | 467,519 | 402,575 | 356,862 | 316,951 |
| Contributions in relation to the statutorily or contractually required contributions | $ | (545,123) | (514,237) | (467,519) | (402,575) | (356,862) | (316,951) |
| Contribution deficiency (excess) | $ | 0 | 0 | 0 | 0 | 0 | 0 |
| Covered payroll | $ | 6,882,850 | 6,657,465 | 6,233,660 | 5,861,451 | 5,728,101 | 5,484,244 |
| Contributions as a percentage of covered payroll | % | 7.92% | 7.72% | 7.50% | 6.87% | 6.23% | 5.78% |

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

**Notes to Schedules:**

The following are assumptions and methods as of June 30, 2020 are:

- The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' *Comprehensive Annual Financial Report* located on the DRS employer-resource GASB webpage. These assumptions reflect the results of OSA's *2013-2018 Demographic Experience Study Report* and the *2019 Economic Experience Study*.

- Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019 to June 30, 2020, reflecting each plan's normal cost (using the entry age cost method), assumed interest and actual benefit payments.
  - Inflation: 2.75% total economic inflation; 3.50% salary inflation
  - Salary Increases: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
  - Investment rate of return: 7.40%
- Mortality rates were developed using the Society of Actuaries Pub. H-2010 mortality rates as a base table. OSA applied age offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using MP-2017 generational improvement scale.
- OSA updated the Early Retirement Factors and Joint-and-Survivor Factors used in their model. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.

Changes in Assumptions and Methods:
- OSA updated its demographic assumptions based on the results of its latest demographic experience study.
- This valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.

See accompanying Note 8 to the Financial Statements

**Western Conference of Teamsters Pension Plan**

| Year ended December 31* | District Contributions | Covered Employees |
|---|---|---|
| 2020 | $36,832 | 34 |
| 2019 | $36,570 | 36 |
| 2018 | $37,880 | 38 |
| 2017 | $37,919 | 37 |
| 2016 | $34,863 | 35 |
| 2015 | $36,458 | 35 |
| 2014 | $35,332 | 36 |
| 2013 | $34,090 | 33 |

**Notes to Schedule:**
As of the date of this schedule, there have not been any changes to the benefit terms. The employer rate of 50¢ per hour paid has not changed during the current year.

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

See accompanying Note 8 to the Financial Statements

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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