Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Asotin County

For the period January 1, 2019 through December 31, 2019

Published August 31, 2020

Report No. 1026872

Office of the Washington State Auditor
Pat McCarthy

August 31, 2020

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Asotin 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

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Public Utility District No. 1 of Asotin County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, 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 Asotin County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 18, 2020.

As discussed in Note 8 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management's plans in response to this matter are also described in Note 8.

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

August 18, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Asotin County
January 1, 2019 through December 31, 2019

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Asotin County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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 Asotin County, as of December 31, 2019, 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 8 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Management's plans in response to this matter are also described in Note 8. 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 10 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 August 18, 2020 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

August 18, 2020

FINANCIAL SECTION

Public Utility District No. 1 of Asotin County
January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis

The following Management Discussion and Analysis is designed to provide an overview of the Asotin County Public Utility District's (District) financial activities for the year ended December 31, 2019. This discussion should be read in conjunction with the District's financial statements and notes to the financial statements.

The District owns and operates a public water system with approximately 7,250 connections to customers in Asotin County covering twenty square miles. The District also owns and operates the Port of Wilma water system in Whitman County which serves approximately thirty commercial and industrial customers. The District provides sanitary sewer collection to over 1,400 customers. The District's office and main shop are located in Clarkston, Washington.

Basic Financial Statements

The Statement of Net Position presents the District's assets, deferred outflows, liabilities, and deferred inflows, with the balance reported as net position. The Statement of Net Position provides information about the nature and amount of investment in resources (assets), and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses. The Statement of Revenue, Expenses and Changes in Fund Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flow provides information about the District's cash receipts and payments from operations, as well as funds provided in investing and financing activities. The notes to the financial statements provide additional information that is essential to fully understanding the figures provided in the financial statements.

Financial Analysis and Summary

The District's overall financial condition remains stable. The District has been very careful with the resources that have been provided by rate revenue because there is very little growth potential projected for revenues from new customers. The reduction of costs in a number of areas have provided revenue stability for the District and rate stability for customers while allowing the District to meets its obligations and provide for capital improvement.

The District had a $1 base meter charge and 5% consumptive rate increase during 2019 and is continuing to use current rates to fund asset expansion. This plan is possible because significant amounts of debt have been retired and the combined revenues between the water and wastewater system will be adequate to cover identified improvements.

CONDENSED COMPARATIVE STATEMENT OF NET POSITION
As of December 31, 2019 and 2018
(In thousands)

		2019		2018		Change
Assets						
Current and other assets	$	3,096	$	2,058	$	1,038
Capital assets, net of depreciation		19,720		19,742		(22)
Total Assets		22,816		21,800		1,016
Deferred outflows of resources		152		154		(2)
Liabilities						
Other liabilities		153		145		8
Long-term liabilities		1,070		1,318		(248)
Total Liabilities		1,223		1,463		(240)
Deferred inflows of resources		405		255		150
Net Position						
Net investment in capital assets		19,641		19,585		56
Unrestricted		1,699		651		1,048
Total net position	$	21,340	$	20,236	$	1,104

Current and other assets increased $1.0 million, primarily in cash and cash equivalents. Long-term liabilities decreased by 19% between 2018 and 2019, as the Net Pension Liability decreased by $240,000 in 2019 because of the decrease of the overall PERS liability. This was offset by a small increase in Total Other Postemployment Benefits liability, as the District offered a new retiree benefit in 2019, covering medical premiums for between one and three years based on length of employment.

The largest portion of the District's net position is the classification Net Investment in Capital Assets. This classification reflects the District's investment in capital assets (land, intangible assets such as easements and water rights, buildings, plant, and equipment) less any remaining related debt. The District uses its capital assets to provide services to its customers. The classification Net Investment in Capital Assets increased by approximately $55,000 in 2019, as depreciation nearly offset payments on debt and capital asset acquisitions.

The remainder of the District's net position is unrestricted, which may be used to meet the District's ongoing obligations to customers and creditors. Unrestricted net position increased $1.0 million in 2019, as operating revenues exceeded expenses.

CONDENSED COMPARATIVE STATEMENT OF CHANGES IN FUND NET POSITION
For the year ended December 31, 2019 and 2018
(In thousands)

		2019		2018		Change
Operating revenues						
Metered and Wastewater sales	$	4,957	$	4,547	$	410
Other non-operating		387		496		(109)
Non-operating revenues - other		5		9		(4)
Non-operating revenues -disposal of assets		-		(4)		4
Total revenues		5,349		5,048		301
Operating expenses						
Operation		1,469		1,529		(60)
Maintenance		378		552		(174)
Customer Services		355		440		(85)
General Administration		1,404		1,001		403
Depreciation		407		391		16
Excise and B&O Taxes		231		226		5
Non-operating expenses		1		2		(1)
Total expenses		4,245		4,141		104
Change in net position		1,104		907		197
Net Position, beginning of year		20,236		19,223		1,013
Change in accounting principles		-		(53)		53
Prior period adjustment		-		159		(159)
Net Position, end of year	$	21,340	$	20,236	$	1,104

Change in net position after non-operating revenues and expenses was an increase of $1.1 million in 2019 as compared to an increase of $907,000 in 2018. This increase in the change in net position resulted primarily from increased operating revenue. The District's operating revenues were $5.3 million, a $302,000 increase from 2018. The major source of revenue for the District is metered water sales and sewer charges.

The net utility operating income before non-operating revenues and expenses was $1,099,516 as compared to $903,574 in 2018. The operating income increased by approximately $196,000 between 2018 and 2019, as operating revenue growth exceeded expense increases.

Capital Assets

The District's total capital assets as of December 31, 2019 were $19.7 million, net of depreciation. Funds for capital construction are provided for through a combination of installation charges and cash flow from revenues. In 2019 the District purchased and placed into service $384,000 worth of capital assets, all of which were water distribution system improvements. See Note 3 of the accompanying notes to the financial statements for further detail related to capital asset activity.

Long-term Debt Activity

At year-end the District long term-debt obligation included a low interest 2000 Public Works Trust Fund loan used to fund water system capital improvements. At year-end the total of the capital improvement and property loans was $78,396 as compared to $156,792 in 2018. Debt was reduced $78,396 in 2019.

Funds for payment of Long-term Debt are provided for from the cash flow from revenues. See Note 4 of the accompanying notes to the financial statements for further detail related to long term debt activity.

Economic Outlook and Currently Known Facts

In 2020, the District base meter charge increased by $2 across meter sizes from 3/4 inch to 1 1/2 inch, $3 across meter sizes from 2 inch to 3 inch, $4 for 4 inch meters, $5 for 6 inch meters, and $8 for 8 inch meters. The District has projected a 5% increase in rates over the next six years to fund utility operations and future projects identified in the water system plan. The District continues to strive to reduce its capital debt and use current resources to fund capital acquisition.

Requests for Information

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

Public Utility District No. 1 of Asotin County
Attention: General Manager
P.O. Box 605
Clarkston, WA 99403

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2019

		2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,478,894
Accounts Receivable, net		330,817
Materials Inventory		285,707
TOTAL CURRENT ASSETS		3,095,418
Noncurrent Assets:		
Workers Compensation Deposit		1,548
Capital Assets Not Being Depreciated		107,813
Capital Assets Being Depreciated		19,611,242
TOTAL NONCURRENT ASSETS		19,720,603
TOTAL ASSETS	$	22,816,021
DEFERRED OUTFLOWS OF RESOURCES		
Amounts Related to Pensions		148,721
Amounts Related to OPEB		3,511
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	152,232

The accompanying notes are an integral part of these financial statements.

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2019

		2019
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	27,939
Wages Payable		54,241
Interest Payable		392
Customer Deposits		39,399
Compensated Absences - Current		22,292
Other Current Liabilities		30,537
Loans Payable - Current		78,396
Total Other Post Employment Benefits Liability - Current Portion		46,728
TOTAL CURRENT LIABILITIES		299,924
Noncurrent Liabilities:		
Compensated Absences		200,628
Claims Liability Payable		76,758
Total Other Post Employment Benefits Liability		219,122
Net Pension Liability		426,386
TOTAL NONCURRENT LIABILITIES		922,894
TOTAL LIABILITIES	$	1,222,818
DEFERRED INFLOWS OF RESOURCES		
Amounts Related to Pensions		297,695
Amounts Related to OPEB		107,784
TOTAL DEFERRED INFLOWS OF RESOURCES	$	405,479
NET POSITION		
Net Investment in Capital Assets		19,640,659
Unrestricted		1,699,297
TOTAL NET POSITION	$	21,339,956

The accompanying notes are an integral part of these financial statements.

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2019

		2019
OPERATING REVENUES		
Metered and Wastewater Sales	$	4,956,968
Other Operating Revenues		386,978
Total Operating Revenue		5,343,946
OPERATING EXPENSES		
Operation Expense		
General Operations		1,172,829
Power Purchased for Resale		11,573
Cost of Energy		284,860
Maintenance		377,652
Customer Services		355,077
General Administration		1,404,008
Depreciation		406,702
Excise and B&O Taxes		231,729
Total Operating Expenses		4,244,430
OPERATING INCOME (LOSS)		1,099,516
NONOPERATING REVENUES (EXPENSES)		
Interest Income		5,259
Interest Expense on Long-Term Debt		(1,176)
Total Nonoperating Revenues (Expenses)		4,083
CHANGE IN NET POSITION		1,103,599
TOTAL NET POSITION, January 1, 2019		20,236,357
TOTAL NET POSITION, December 31, 2019	$	21,339,956

The accompanying notes are an integral part of these financial statements.

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

		2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	$	5,335,730
Payments to Suppliers		(1,845,971)
Payments to Employees		(1,809,274)
Payments for Taxes		(231,729)
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,448,756
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets		(383,602)
Principal Paid on Long Term Debt		(78,396)
Interest Paid on Long Term Debt		(1,568)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(463,566)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends on Investments		5,259
NET CASH PROVIDED BY INVESTING ACTIVITIES		5,259
NET DECREASE IN CASH AND CASH EQUIVALENTS		990,449
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,488,445
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	2,478,894

The accompanying notes are an integral part of these financial statements.

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Utility Operating Income	$	1,099,516
Adjustments to Reconcile Net operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation Expense		406,702
(Increase) Decrease in Receivables		(8,216)
(Increase) Decrease in Inventories		(57,457)
Increase (Decrease) in Current Payables		4,389
Increase (Decrease) in Accrued Payroll		15,139
Increase (Decrease) in Pension Items		(87,477)
Increase (Decrease) in Accrued Employee Benefits		76,160
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	1,448,756

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity. Public Utility District No. 1 of Asotin County was formed in 1984 and began operation in April, 1987, and operates under the laws of the state of Washington applicable to public utility districts. The District is a municipal corporation that provides residential and commercial water service, wastewater service and limited electrical service within Asotin County, Washington. A three-member board governs the District. As required by GAAP, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor, under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for Class A water utilities prescribed by the National Association of Regulatory Commissioners (NARUC).

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are derived from its charges to customers for water supply and distribution. Operating expenses include cost of providing services and maintenance, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, Fund Balance, Net Position

Cash and Cash Equivalents. The District's cash and cash equivalents are considered to be cash on hand, certificates of deposit, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

For the purposes of the statement of cash flows, the District classifies the Washington State Local Government Investment Pool as cash. Investments in the State Investment Pool are classified as cash equivalents on the financial statements.

Investments All investments of the District are reported at amortized cost.

Interest is recognized in non-operating revenues as earned. Changes in the fair value of investments are also included in non-operating revenues (expenses). Unrealized gains and losses are recognized on the books as of the statement of net position date. A detailed listing is shown in Note 2, Deposits & Investments.

Receivables. Accounts receivable includes current balances due on utility services billed and other receivables. An allowance for uncollectible accounts is provided based upon historical collection experience. The basis for Unbilled Accounts Receivable is accounts that were billed in January 2020 for service that was provided in December 2019.

Accounts receivable as of December 31, 2019, are as follows:

Utility Service	$ 262,817
Unbilled Accounts Receivable	75,000
Allowance for Uncollectible Accounts	(7,000)
Total	$ 330,817

Materials Inventory. Inventories for the District consist of supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Plant materials and supplies are valued at the first-in, first-out average cost which approximates the market value.

Capital Assets and Depreciation. Capital Assets are defined by the District as assets with initial individual cost of more than $10,000 and an estimated useful life in excess of 3 years, and include property, plant equipment and infrastructure assets. Such assets are recorded at historical cost. Donations by developers are recorded at acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Normal maintenance and repairs are accounted for as expenses when incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The original cost of utility plant retired or otherwise disposed of is removed from the plant account; accumulated depreciation is charged with the accumulated depreciation relating to the asset sold, and the net gain or loss on disposal is credited or charged to income. The gain (loss) from disposition of utility property account is maintained so that the transactions and details underlying each gain or loss are readily identifiable. See Note 3, Capital Assets.

Depreciation is computed on the straight-line method over the estimated useful lives of the asset as follows:

	Useful Life
Organizational and franchise costs	5-50 years
Buildings and improvements	50 years
Wells and distribution system	50-100 years
Equipment	5+ years

Compensated Absences. Compensated absences are absences for which employees will be paid. All personal leave is accrued when incurred. Personal leave pay, which may be accumulated up to a maximum of 1,200 hours, is payable upon resignation, retirement or death. See Note 4, Long-term Debt.

Other Current Liabilities. Other accrued liabilities include accrued payroll taxes and withholdings, and use taxes.

Claims Liability Payable. Claims Liability Payable represent future assessments to the District due to the PURMS insurance pool to meet minimum reserve requirements of the pool. At December 31, 2019, the claims liability payable was $76,758.

Long-term Debt. See Note 4, Long-term Debt.

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. See Note 5, Pensions.

Total Other Post Employment Benefits Liability. See Note 6, Other Post Employment Benefits.

Deferred Outflows of Resources and Deferred Inflows of Resources. A Deferred Outflow of Resources is a consumption of net position that is applicable to future periods. Deferred Inflows of Resources are acquisitions of net position in one period that are applicable to future periods. These are distinguished from assets and liabilities in the statement of net position. The District recognizes Deferred Outflows and Deferred inflows related to pension liability and Other Post Employment Benefits (OPEB) liability.

2. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

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

As of December 31, 2019, the District's cash and cash equivalents are as follows:

Bank depository and checking accounts	$	2,170,705
Petty Cash		450
Certificates of Deposit		151,582
Local Government Investment Pool		156,157
Total cash and cash equivalents	$	2,478,894

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, the District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to $250,000 and by the PDPC for amounts over $250,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

Investments

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk. The District is currently invested in the Washington State Local Government Investment Pool (LGIP).

Investments Measured at Amortized Cost
As of December 31, 2019, the District had the following investments at amortized cost:

Investment	Maturities	District's own investments
State Investment Pool (LGIP)	NA	$ 156,157
Total		$ 156,157

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

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

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

3. CAPITAL ASSETS

Utility plant activity for the year ended December 31, 2019 was as follows:

CAPITAL ASSETS	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated				
Land	$ 107,813	$ -	$ -	$ 107,813
Total utility plant not being depreciated	107,813	-	-	107,813
Utility plant being depreciated				
Buildings and improvements	1,286,158	-	-	1,286,158
Wells, distribution system and infrastructure	26,235,264	383,602	-	26,618,866
Equipment	2,328,319	-	-	2,328,319
Total utility plant being depreciated	29,849,741	383,602	-	30,233,343
Less accumulated depreciation for:				
Buildings and improvements	647,781	18,019	-	665,800
Wells, distribution system and infrastructure	8,558,851	251,568	-	8,810,419
Equipment	1,008,767	137,115	-	1,145,882
Total accumulated depreciation	10,215,399	406,702	-	10,622,101
Total utility plant being depreciated, net	19,634,342	(23,100)	-	19,611,242
Total utility plant, net	$ 19,742,155	$ (23,100)	$ -	$ 19,719,055

4. LONG-TERM DEBT

Long-term debt at December 31, 2019, comprises the following direct borrowing loan:

2000 Public Works Trust Fund The Washington State Department of Community Development provided a direct borrowing loan, not to exceed $1,620,000 to finance distribution system improvements, well upgrade, reservoir painting and SCADA upgrades. The District received advances in the amount of $1,458,000 which represents 90% of the approved loan. The loan will be repaid annually over 20 years at an interest rate of 3%.	$	78,396
Current portion of long-term debt		(78,396)
Long-term debt due after one year	$	-

Long-term Debt Maturities. The annual requirements to amortize all long-term direct borrowings outstanding as of December 31, 2019 are as follows:

Year	Principal	Interest	Annual Payment
2020	78,396	783	79,179
Total	$ 78,396	$ 783	$ 79,179

This loan was paid in full January 2020.

A summary of changes in long-term debt is as follows:

	Balance 1/1/2019	Increase	Decrease	Balance 12/31/2019	Due within one year
Direct Borrowings	$ 156,792	$ -	$ 78,396	$ 78,396	78,396
Compensated Absences	238,643		15,723	222,920	22,292
Claims Liability	81,623		4,865	76,758	-
Other Post Employment Benefits	175,488	90,362	-	265,850	46,728
Pension Liability	665,644	-	239,258	426,386	-
Total long-term debt	$ 1,318,190	$ 90,362	$ 338,242	$ 1,070,310	$ 147,416

5. PENSIONS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 426,386
Deferred outflows of resources	148,721
Deferred inflows of resources	297,695
Pension expense/expenditures	(25,539)

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

(COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 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 2019 were as follows:

PERS Plan 1 **Actual Contribution Rates:**	**Employer**	**Employee**
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	**12.83%**	**6.00%**
July–December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	**12.86%**	**6.00%**

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other

PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2**
January - June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**
July–December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.86%**	**7.90%**

The District's actual PERS plan contributions were $64,067 to PERS Plan 1 and $100,186 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the 2017 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table". The Society of Actuaries publishes this document. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Actuarial results reflect the following changes in assumptions and methods since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of initial retirement eligibility for terminated vested members who delay application for retirement benefits.

- OSA updated Cost-of-Living Adjustment (COLA) programming to reflect legislation signed during the 2018 Legislative Session (C151 L18). This law provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5 percent increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members.

Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.50%.)

Consistent with the long-term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3, whose rates include a component for the PERS Plan 1). Based on those assumptions, 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 7.40% was used to determine the total liability.

Long-Term Expected Rate of Return

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

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, 2019, 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%
	100%	

Sensitivity of the Net Pension Liability/ (Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District 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 6.40%	Current Rate 7.40%	1% Increase 8.40%
PERS 1	402,681	321,549	251,155
PERS 2/3	804,056	104,837	(468,919)

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, 2019, the District reported a total pension liability of $426,386 for its proportionate share of the net pension liabilities as follows:

Plan	Liability
PERS 1	321,549
PERS 2/3	104,837

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.01001%	0.00836%	-0.00165%
PERS 2/3	0.01280%	0.01079%	-0.00201%

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

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	(56,424)
PERS 2/3	30,885

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (21,482)
Contributions subsequent to the measurement date	31,679	-
TOTAL	$ 31,679	$ (21,482)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 30,036	$ (22,539)
Net difference between projected and actual investment earnings on pension plan investments	-	(152,600)
Changes of assumptions	2,685	(43,986)
Changes in proportion and differences between contributions and proportionate share of contributions	31,611	(57,088)
Contributions subsequent to the measurement date	52,710	
TOTAL	$ 117,042	$ (276,213)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 30,036	$ (22,539)
Net difference between projected and actual investment earnings on pension plan investments	-	(174,082)
Changes of assumptions	2,685	(43,986)
Changes in proportion and differences between contributions and proportionate share of contributions	31,611	(57,088)
Contributions subsequent to the measurement date	84,389	-
TOTAL	$ 148,721	$ (297,695)

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, 2020. 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
2020	(4,742)	(49,440)
2021	(11,233)	(81,559)
2022	(4,009)	(37,973)
2023	(1,498)	(21,829)
2024	-	(12,529)
Thereafter	-	(8,551)

6. OTHER POST EMPLOYMENT BENEFITS

The following table represents the aggregate Other Post Employment Benefits (OPEB) other than pension amounts for the District's plan for the year 2019.

Aggregate OPEB amounts - All Plans		
OPEB Liabilities	$	265,850
Deferred outflows of resources		3,511
Deferred inflows of resources		107,784
OPEB Expense		192,681

<u>Plan Description:</u>

The District pays medical premiums under a single-employer defined benefit Other Post Employment Benefit plan.

This plan pays medical premiums of qualified retirees for one to three years from the date of retirement, depending on length of service. Additionally, all employees and spouses are eligible to retain medical coverage in PURMS after retirement. The employees and spouses electing to remain in PURMS pay their own premiums; however, coverage results in an implicit subsidy paid by the District through its rates for health care premiums through the pool.

As of year-end, there are 38 active District employees which may be eligible for continuing medical benefits, and one retired employee which is receiving these benefits. There are no retirees eligible but not receiving benefits.

There are no assets accumulated in a trust for this plan. This OPEB plan does not issue a stand-alone financial report nor is it included in the report of another entity.

Contributions:

This plan is not currently funded. The District policy is based on the pay as you go method. The benefit is 100% covered at the current year's premiums, which are paid by the District, with the exception of retiree-elected PURMS medical, which is paid for by the retiree. The implicit cost of allowing retired employees and spouse to retain PURMS coverage (implicit subsidy) is considered the contribution made by the District for that benefit. During the year, the District's premium payments were $15,868.

Actuarial Methods and Assumptions:
The total OPEB liability was determined using the most recent actuarial valuation completed in 2019 with a valuation date of December 31, 2019.

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, inflation and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Additionally, calculations are based on the types of benefits provided under the terms of the plan at the time of each valuation. Actuarial calculations reflect a long-term perspective.

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

Valuation Date	12/31/2019
Actuarial Cost Method	Entry Age Normal
Discount rate - Beginning of Measurement Year	3.83%
Discount rate - End of Measurement Year	3.26%
Healthcare Trend Rates	6.00%
Amortization Period - Level Dollar	14 years

Actuarial assumptions are developed consistent with the 2007-2012 Experience Study performed by the Office of the State Actuary. The source of the discount rate is the 20 Year AA Municipal Index Rate. Mortality rates were based on the RP-2014 report with 2019 Improvement rates. The Society of Actuaries publishes this document. Retirement was assumed to be at a minimum age 60 with 10+ years of service or minimum age 55 with age plus years of service of 80, with 100% election of PURMS coverage pre-65 and 0% election of PURMS coverage after age 65.

Sensitivity Rates

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 6.0 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.0) or 1-percentage point higher (7.0%) that the current rate.

Health Care Trend Rate Sensitivity

1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
$ 250,461	$ 265,850	$ 283,448

The following presents the total OPEB liability of the (entity type) calculated using the discount rate of 3.26 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.26%) or 1-percentage point higher (4.26%) than the current rate.

Discount Rate Sensitivity

1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
$ 284,139	$ 265,850	$ 250,221

Changes in the Total OPEB Liability

At the measurement date December 31, 2019, the changes in the total OPEB liability are as follows:

		2019
Service cost	$	2,195
Interest Cost		6,721
Changes in Benefit Terms		191,798
Experience Gain/Loss		(112,565)
Changes in assumptions		2,213
Net change in total OPEB liability		90,362
Total OPEB liability - beginning		175,488
Total OPEB liability - ending	$	265,850

The District reported $192,681 as OPEB expense for the calendar year 2019.

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following:

	Deferred outflows of resources		Deferred inflows of resources	
Difference between expected and actual experience	$	1,457	$	104,520
Changes of Assumptions		2,054		3,264
Total	$	3,511	$	107,784

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended December 31:		
2020	$	(8,033)
2021		(8,033)
2022		(8,033)
2023		(8,033)
2024		(8,033)
Thereafter		(64,108)
	$	(104,273)

7. RISK MANAGEMENT

Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management service to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements.
The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2019, there were twenty-one, nineteen, and twelve members in the Liability, Property, and Health & Welfare pools, respectively. The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled "PURMS Joint Self-Insurance Agreement" (SIA).

Liability Risk Pool

The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula. Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the

Designated Liability Pool Balance. In addition, Liability Assessments are levied at any time during the year that the actual Liability Pool Balance becomes $500,000 less than the Designated Liability Pool Balance.

For 2019, the Designated Liability Pool Balance was $3,500,000. As a result, as of December 31, 2019, the Liability Pool maintained cash reserves of $2,925,375 to pay for operating expenses and liability claims. The Liability Coverage Limit was $1,000,000 per occurrence as of December 31, 2019.

As of December 31, 2019 there were 93 known incidents or unresolved Liability Claims pending against one or members or former members of the Liability Pool. The total risk posed by these claims to such members and to the Liability Pool itself is unknown but the reserves set by the Administrator for these claims were $244,342.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, the Property Pool has had a self-insured retention (or Property coverage Limit) of $250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2019, the amount of the Excess Property Insurance was $200 million, with excess coverage attaching at the $250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

As of December 31, 2019 there were 7 known property claims pending from members of the property pool. The total risk posed by these claims to such members and to the Property Pool itself is unknown and can only be estimated. The reserves set by the Administrator for these claims were $28,924.

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 SIA 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 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 are administrative expenses incurred by the H&W Pool, premiums for stop-loss insurance, PPO charges, and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two different stop-loss points. The first is established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its members. For 2019 the H&W Pool Individual Stop Loss Point was $325,000 per employee and the H&W Pool Aggregate Stop Loss Point was $23,722,524 for the combined H&W Claims Costs of the employees of members of the H&W Pool.

As of December 31, 2019, reserves of $3,333,680 for prescription drug, dental and vision benefits was set aside by the Administrator of the pool to cover the actuarially estimated program liability of $1,278,699.

Each of PURMS risk pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. Bi-annually, the State Risk Manager performs its own audit of PURMS' risk pools.

There has been no reduction in insurance coverage from the previous year and there have been no settlements in excess of the District's insurance coverage in any of the three preceding years.

Short-term Disability

The District self-insures for short-term disability for all employees who are medically removed from duty for reasons not associated with employment. The District compensates the employee for 70% of their wages after a qualifying period of 40 hours' missed work. Short-term disability payments to employees in 2019 were $888.

8. OTHER DISCLOSURES

Accounting and Reporting Changes

The District implemented GASB statement Number 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placement* on January 1, 2019. The objective of this standard is to improve note disclosures related to debt obligations. The standard defines debt as a liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more amounts that is fixed at the date the contractual obligation is established. It requires new disclosures related to amounts pledged for collateral of debt, unused lines of credit, terms related to default, termination or acceleration of debt and disclosures related to direct borrowings and direct placements. This implementation related to note disclosures only; no changes were required on the financial statements.

The District also implemented GASB statement Number 89, Accounting for Interest Cost Incurred before the end of a Construction Period, on January 1, 2019. The objective of this standard is to improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred.

Subsequent Event

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. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, and limiting gathering sizes.

As part of its response, the District continued to read water meters and process utility bills according to regularly scheduled cycles. However, the District discontinued the processing of fees and penalties for customer accounts that were not paid by the due date of the bill. The potential impact could result in a loss of revenue estimated to be less than $10,000 per month. To mitigate the impact of the loss of revenue, the District has limited expenditures on nonessential business activities until actual revenue losses can be more accurately determined.

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.

ASOTIN COUNTY PUD

REQUIRED SUPPLEMENTARY INFORMATION - Other Post Employment Benefits (OPEB)

Schedule of Changes in Total Liability and Related Ratios

Last Two Calendar Years

Total OPEB liability		2019	2018
Service cost	$	2,195	7,441
Interest		6,721	5,436
Changes of benefit terms		191,798	-
Differences between expected and actual experience		(112,565)	1,700
Changes of assumptions or other inputs		2,213	(3,808)
Net change in total OPEB liability		90,362	10,769
Total OPEB liability beginning		175,488	164,719
Total OPEB liability ending	$	265,850	175,488
Covered employee payroll		1,341,718	1,289,112
Total OPEB liability as a percentage of covered employee payroll		19.8%	13.6%

Notes to schedule

1. Changes of assumptions

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	3.83%
2019	3.26%

2. The District implemented GASB 75 in 2018, therefore no data is presented before then. Eventually, ten years of data will be presented.

3. There are no assets accumulated in a trust that meets the criteria of GASB 75, to pay related benefits.

ASOTIN COUNTY PUD
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Proportionate Share of the Net Pension Liability

PERS 1
As of June 30
Last Six Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2019	0.008362%	$ 321,549	$ 1,279,216	25.14%	67.12%
2018	0.010011%	447,095	1,234,911	36.20%	63.22%
2017	0.009248%	438,825	1,165,547	37.65%	61.24%
2016	0.009169%	492,418	1,116,898	44.09%	57.03%
2015	0.008853%	463,094	1,014,362	45.65%	59.10%
2014	0.008660%	436,252	962,773	45.31%	61.19%

PERS 2/3
As of June 30
Last Six Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2019	0.010793%	$ 104,837	$ 1,279,216	8.20%	97.77%
2018	0.012800%	218,549	1,234,911	17.70%	95.77%
2017	0.011896%	413,329	1,165,547	35.46%	90.97%
2016	0.011734%	590,798	1,116,898	52.90%	85.82%
2015	0.011428%	408,329	1,014,362	40.25%	89.20%
2014	0.011149%	225,362	962,773	23.41%	93.29%

ASOTIN COUNTY PUD
REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans
Schedule of Employer Contributions

PERS 1
As of December 31
Last Six Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2019	$ 64,067	$ (64,067)	$ -	$ 1,296,863	4.94%
2018	65,018	(65,018)	-	1,284,040	5.06%
2017	58,505	(58,505)	-	1,193,878	4.90%
2016	54,691	(54,691)	-	1,146,569	4.77%
2015	43,205	(43,205)	-	974,637	4.43%
2014	44,007	(44,007)	-	1,069,473	4.11%

PERS 2/3
As of December 31
Last Six Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2019	$ 100,186	$ (100,186)	$ -	$ 1,296,863	7.73%
2018	96,304	(96,304)	-	1,284,040	7.50%
2017	81,923	(81,923)	-	1,193,878	6.86%
2016	71,431	(71,431)	-	1,146,569	6.23%
2015	55,388	(55,388)	-	974,637	5.68%
2014	54,491	(54,491)	-	1,069,473	5.10%

ASOTIN COUNTY PUD

Notes to Required Supplemental Information - Pension

As of December 31
Last Six Years

Note 1: Information Provided

GASB 68 was implemented for the year ended December 31, 2014, therefore there is no data available for years prior to 2014. Eventually, the schedules will show ten years of data.

Note 2: Significant Factors

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

Note 3: Covered payroll

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

Note 4: Contribution rates

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

PERS 1

From this Date	Through this Date	Rate	
9/1/2013	6/30/2015	9.21%	
7/1/2015	6/30/2017	11.18%	
7/1/2017	8/31/2018	12.70%	
9/1/2018	6/30/2019	12.83%	
7/1/2019	current	12.86%	*

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

PERS 2/3

From this Date	Through this Date	Rate	
9/1/2013	6/30/2015	9.21%	
7/1/2015	6/30/2017	11.18%	
7/1/2017	8/31/2018	12.70%	
9/1/2018	6/30/2019	12.83%	
7/1/2019	current	12.86%	*

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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