COVINGTON WATER DISTRICT

Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2023

INTRODUCTION

As management of the Covington Water District (district), we have prepared a narrative overview and analysis of the financial activities of the district for the fiscal year ended December 31, 2023. Please read this in conjunction with the financial statements, including the notes to the financial statements, following this commentary.

FINANCIAL HIGHLIGHTS

- The district's assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $170 million as of December 31, 2023.
- The district had a positive change in net position of $8.1 million for the year ended December 31, 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the district's basic financial statements. In accordance with requirements set forth by the Governmental Accounting Standards Board, the district's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The basic financial statements, presented for the year ended December 31, 2023 are comprised of:

- **Statement of Net Position:** The statement of net position provides a record, or snap shot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the district at the close of the year. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to district creditors (liabilities). It provides a basis for evaluating the capital structure of the district and assessing its liquidity and financial flexibility.
- **Statement of Revenues, Expenses, and Changes in Fund Net Position:** The statement of revenues, expenses and changes in fund net position presents the results of the district's business activities over the course of the year. This information can be used to determine whether the district successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

- **Statement of Cash Flows:** The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities over the course of the year. It presents information regarding where cash originated and what it expended for.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the district's presentation of financial position, results of operations and changes in cash flows. The notes provide additional information necessary to acquire a full understanding of the data provided in the district's financial statements. The notes can provide useful information regarding the district's significant accounting policies; explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

CONDENSED COMPARATIVE FINANCIAL DATA

Statement of Net Position

	2023	2022	Increase (Decrease)	% Change
Capital assets	$150,127,419	$146,369,070	$3,758,349	2.6%
Other assets	49,665,598	51,335,600	(1,670,002)	-3.3%
TOTAL ASSETS	**199,793,017**	**197,704,670**	**2,088,347**	**1.06%**
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**976,315**	**1,028,920**	**(52,605)**	**-5.1%**
Long-term liabilities	24,397,087	30,323,063	(5,925,976)	-19.5%
Other liabilities	4,352,893	3,942,138	410,755	10.4%
TOTAL LIABILITIES	**28,749,980**	**34,265,201**	**(5,515,221)**	**-16.1%**
TOTAL DEFERRED INFLOWS OF RESOURCES	**1,869,569**	**2,437,619**	**(568,050)**	**-23.3%**
Net investment in capital assets	124,166,041	114,451,293	9,714,748	8.5%
Restricted net position	3,448,577	4,074,637	(626,060)	-15.4%
Unrestricted net position	42,535,165	43,504,840	(969,675)	-2.2%
TOTAL NET POSITION	**$170,149,783**	**$162,030,770**	**$8,119,013**	**5%**

COVINGTON WATER DISTRICT

Management's Discussion and Analysis (MD&A)

For the year ended December 31, 2023

Analysis of the Statement of Net Position

- Capital assets consist of land, construction work in progress, and property & equipment, less accumulated depreciation. The increase in capital assets of $3.7M is the net effect of the increase in construction work in progress, increase in capital assets, and the increase in accumulated depreciation.

- The decrease in other assets of $1.6M is primarily related to the decrease in cash and receivables, net of the increase in net pension asset.

- The decrease in deferred outflows of resources of $52k is due to the net decrease in deferred outflows related to pensions and deferred outflows related to OPEB.

- The decrease in long-term liabilities of $6M is primarily due to the paydown of debt.

- The increase in other liabilities of $410k is primarily related to the paydown of debt.

- The decrease in deferred inflows of resources of $568k is a result of the net decrease in deferred inflows related to pensions, and decrease in deferred inflows related to debt.

- The district's net position increase by approximately $8.1 million from 2022 to 2023 as a direct result of the overall positive net change in position during 2023.

Having looked at the Statement of Net Position in detail, another common financial analysis tool is the Quick Ratio which compares the most liquid assets (non-restricted cash and equivalents) to current liabilities in order to assess the organization's ability to meet obligations. The district's Quick Ratio is 8.79 ($38.2M cash/$4.3M current liabilities) for 2023. While there are no set 'rules' regarding Quick Ratios, district management believes this is a very healthy ratio.

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For the year ended December 31, 2023

Statement of Revenues, Expenses, and Changes in Fund Net Position

	2023	2022	Increase (Decrease)	% Change
Operating revenues	16,328,288	15,800,002	528,286	3.3%
Nonoperating revenues	1,425,366	580,821	844,545	145%
TOTAL REVENUES	**17,753,654**	**16,380,823**	**1,372,831**	**8.4%**
Operating expenses	9,973,718	8,856,559	1,117,159	12.6%
Depreciation	4,632,915	4,538,296	94,619	2.1%
Nonoperating expenses	546,695	813,877	(267,182)	-32.8%
TOTAL EXPENSES	**15,153,328**	**14,208,732**	**944,596**	**6.6%**
EXCESS (DEFICIENCY) BEFORE ANY CONTRIBUTIONS	**2,600,326**	**2,172,091**	428,235	19.7%
CONTRIBUTIONS	**5,518,686**	**1,902,621**	3,616,065	190%
CHANGE IN NET POSITION	**8,119,012**	**4,074,712**	4,044,300	99.3%
ENDING NET POSITION	**170,149,783**	**162,030,771**	8,119,012	5%

Analysis of the Statement of Revenues, Expenses & Changes in Fund Net Position

- Operating revenues increased 3.3% in 2023, primarily due to an increase in water sales.

- Nonoperating revenues increased from 2022 to 2023 by 145%, primarily due to an increase in interest income.

- Operating expenses increased in 2023 by $1.1M, or 12.6%, which is made up of a net combination of increases in costs related to the production, operation, and maintenance, and administration of the water system.

- Depreciation expense is a non-cash operating expense that systematically allocates the historical cost of a capital asset over its useful life. It is a proxy for the cost of using a capital asset or for the gradual wearing out of a capital asset over time. The district starts charging depreciation expense in the year following the capitalization of an asset. The expense in 2023 is reasonable based on the assets in service.

- The decrease in 2023 from 2022 of non-operating expenses of 32.8% is due to the reduction in interest expense as debt is paid down and the principal portion of the scheduled payments increase.

- Capital contributions are comprised of meter installation charges, connection charges, and donated capital assets. There was a net increase from the prior year in total capital contributions of 190% in 2023.

    - **Meter installation charges-** The meter installation is the last step in the connection process. Once the meter installation charge has been collected and the meter installed, the customer becomes a part of the utility billing process. Meter installation charges fluctuate by nature from year to year based on development. Meter installations and therefore charges, increased in 2023 from 2022 by 84%.

    - **Connection charges**- The district collects connection charges in order to ensure that future customers bear most of the burden of growth. Connection charges consist of the Future Facilities Fee (new customers' proportionate share of future facilities needed to serve each new customer); Existing Facilities Fee (new customer proportionate share of existing system general supply and storage facilities) and Existing Distribution Facilities Fee (new customers' proportionate share of existing pipes, hydrants, valves and distribution facilities). Connection charges are collected in stages as the water availability certificate is issued, the system extension application is approved, the completed system is accepted by the district, and the meter application is submitted. The entire process typically extends over several years. The bulk of the facility charge revenue represents a small number of large developer projects – typically only 20 to 25 projects are in process at a time. The timing is not subject to the district's control and the total revenue can substantially vary from year to year with the delay or acceleration of only a few projects. Connection charges received in 2023 were 55.6% higher than the prior year.

    - **Donated capital assets-** The district also receives additions to the distribution system from developers. Donated capital assets are recognized when the system is completed according to the district's specifications and accepted by the district. The timing is not subject to the district's control, and therefore fluctuates by nature from year to year. Donated capital assets increased in 2023 from the prior year by $2.8M

The district recorded a positive change in Net Position in 2023 of $8.1 million as a result of the combination of the items outlined in the bullet points above.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The district's overall financial position has improved since the prior year with a healthy increase in net position for 2023, adequate liquid assets, positive operating cash flow, a robust unrestricted net position, reliable plants and systems, and favorable debt service coverage ratios. As a result of the continued financial strength of the district, there were no increases to water rates in 2024.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

Capital assets consist of land, construction work in progress, and capital assets such as infrastructure (utility plant), buildings, technology, office equipment, transportation, machinery, and equipment. Capital assets are recorded at cost and depreciated over the estimated useful life of the asset (3 to 100 years) using the straight-line method beginning the year after it is placed in service. A corresponding contra-asset account depicts the accumulated depreciation. The net value of an asset at any point in time consists of the historical cost less the accumulated depreciation. Note that land is not depreciated according to generally accepted accounting principles, therefore land continues to be valued at historical cost over time.

For additional information on capital assets, see Note 3 in the notes to the financial statements.

The overall net increase of $3,758,349 in net capital assets consisted of:

Item	Net Increase (Decrease)
Donated assets (infrastructure donated by developers & customers)	$ 3,429,342
Net book value of asset disposals	(3,091)
Capital asset additions	1,139,665
Construction work in progress	3,825,348
Depreciation	(4,632,915)
Net increase	$ 3,758,349

- The $3.4M in donated assets in 2023 consists of 8 developer extension projects that range in amounts from approximately $68k to $1.5M, in addition to donated meters from customers.

- The $1.1M net increase in capital asset additions is related to the completion and close out of multiple Capital Improvement Projects as well as the purchase of capital assets.

- The $3.8M net increase of construction work in progress reflects an increase in the carrying balance of various construction projects in progress that have not been placed into service as of December 31, 2023, in addition to the projects that have been completed and closed out to capital assets.

Long Term Debt

	Beginning Balance 1/1/2023	Additions	Reductions	Ending Balance 12/31/2023	Due in 1 year	Long term portion
Water Revenue Bonds	$ 4,005,000	$ ---	$ (4,005,000)	$ ---	$ ---	$ ---
PWTF/DWSRF Loans	9,511,923	---	(1,059,353)	8,452,570	879,953	7,572,617
SSP Repayment Agreements	16,921,394	---	(590,811)	16,330,583	1,186,645	15,143,938
TOTALS	**$ 30,438,317**	**$ ---**	**$ (5,655,164)**	**$ 24,783,153**	**$ 2,066,598**	**$ 22,716,555**

For additional information on long-term debt, see Note 5 in the notes to the financial statements.

OTHER POTENTIALLY SIGNIFICANT MATTERS

On February 13, 2024 the Board of Commissioners approved resolution no. 4662, approving the early redemption of the District share of the 2013 Regional Water Supply System (RWSS) 2013 Water Revenue Bonds (see footnote 5). The Board of Commissioners authorized the General Manager to authorize agreements related to the redemption in the amount of $10,580,727.80 plus any administrative fees and/or expenses. The bonds were redeemed on February 14, 2024.

COVINGTON WATER DISTRICT

Statement of Net Position

December 31, 2023

ASSETS		
Current assets:		
Cash and cash equivalents - unrestricted	$	38,254,646
Cash and cash equivalents - restricted		4,721,193
Accounts receivable - customer		614,068
Accrued unbilled water charges		963,206
Accrued interest receivable		141,637
WD #111 Receivable, current portion		368,524
Lease receivable, current portion		24,249
Restricted current assets:		
Rate Stabilization account		2,000,000
Accrued interest receivable - restricted		6,722
Developer Deposits		162,517
Inventory		485,082
Prepaid expenses		353,683
TOTAL CURRENT ASSETS		48,095,527
Noncurrent assets:		
Other accounts receivable		65,969
Net Pension Asset		1,137,876
WD #111 Receivable, net of current portion		261,736
Lease receivable, net of current portion		104,490
Capital assets not being depreciated:		
Land and land rights		1,482,399
Construction work in progress		10,991,951
Capital assets being depreciated:		
Utility Plant		209,156,607
Accumulated depreciation		(71,503,538)
TOTAL NONCURRENT ASSETS		151,697,490
TOTAL ASSETS	$	199,793,017
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	$	969,400
Deferred outflows related to OPEB		6,915
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	976,315
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$	1,727,326
Accrued compensated absences, current portion		322,690
Subscription liability, current portion		14,399
Accrued interest on bonds and loans payable		45,533
PWTF/DWSRF loans, current portion		879,953
SSP repayment agreements, current portion		1,186,645
Total OPEB liability, current portion		13,830
Developer deposits		162,517
TOTAL CURRENT LIABILITIES		4,352,893
Noncurrent liabilities:		
Accrued compensated absences, net of current portion		179,337
Subscription liability, net of current portion		22,843
PWTF/DWSRF loans, net of current portion		7,572,617
SSP repayment agreements, net of current portion		15,143,938
Net Pension Liability		492,248
Total OPEB Liability, net of current portion		986,104
TOTAL NONCURRENT LIABILITIES		24,397,087
TOTAL LIABILITIES	$	28,749,980
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	$	1,095,450
Deferred inflows related to Leases		128,739
Deferred inflows related to Pensions		645,380
TOTAL DEFERRED INFLOWS OF RESOURCES	$	1,869,569
NET POSITION		
Net investment in capital assets	$	124,166,041
Restricted		3,448,577
Unrestricted		42,535,165
TOTAL NET POSITION	$	170,149,783

COVINGTON WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended December 31, 2023

OPERATING REVENUES	
Water service	$ 15,687,978
Street light revenue	206,378
Other operating revenue	433,932
TOTAL OPERATING REVENUE	16,328,288
OPERATING EXPENSES	
Total production costs-CWD water	507,905
Total purchased water	1,120,524
Operations Department	2,057,144
Engineering Department	1,148,417
Finance Department	1,705,684
Administration Department	2,492,851
Street light expense	200,020
Taxes	741,173
Depreciation expense	4,632,915
TOTAL OPERATING EXPENSES	14,606,633
OPERATING INCOME (LOSS)	1,721,655
NONOPERATING REVENUES (EXPENSES)	
Interest income	1,400,735
Lease income	24,631
Gain (Loss) on capital asset disposition	(1,374)
Interest expense on debt financing	(545,321)
TOTAL NONOPERATING REVENUES (EXPENSES)	878,671
INCOME BEFORE CONTRIBUTIONS	2,600,326
Capital contributions:	
Meter installation charges	63,290
Connection charges	2,026,054
Donated capital assets	3,429,342
Total capital contributions	5,518,686
CHANGE IN NET POSITION	8,119,012
TOTAL NET POSITION, beginning	162,030,771
TOTAL NET POSITION, ending	$ 170,149,783

The accompanying notes are an integral part of this financial statement.

COVINGTON WATER DISTRICT

Statement of Cash Flows
For the year ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water customers, net of refunds, etc.	$	16,675,227
Payments to suppliers		(3,708,808)
Payments related to employees (non-capitalized)		(6,536,867)
Net cash provided by operating activities		6,429,552
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions		2,049,479
Lease principal received		24,631
Purchase of capital assets		(4,961,922)
Principal paid on capital debt		(5,655,164)
Interest paid on capital debt		(883,798)
Other receipts (payments)		(13,731)
Payments on Subscription Liability		37,242
Net cash provided (used) by capital and related financing activities		(9,403,263)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		1,327,502
Net cash provided by investing activities		1,327,502
Net Increase (Decrease) in Cash		(1,646,209)
Balance, Beginning of Period		46,784,565
Balance, End of Period	$	45,138,356
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$	1,721,655
Adjustments to reconcile operating income to net cash provided (used) by operating income:		
Depreciation expense		4,632,915
Change in assets and liabilities:		
Receivables, net		346,939
Inventory		52,994
Accrued & payables		413,204
Pension/OPEB		(738,155)
Net cash provided by operating activities	$	6,429,552
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH CAPITAL AND FINANCING TRANSACTIONS		
Developer contributions to utility plant	$	3,429,342

The accompanying notes are an integral part
of this financial statement.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District 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

The District was incorporated as a municipal corporation in 1960, governed by an elected five member board, and operates under the laws of the state of Washington applicable to water districts.

As required by the generally accepted accounting principles the financial statements present the District. 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.

The District statements are reported using the 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.

The District distinguishes 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 District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water delivery services, as well as street light revenues. Operating expenses for the District include the related costs of water services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Implementation of New Accounting Standards

The District implemented GASB 87, Leases. The object of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

The District implemented GASB 96, Subscription-Based Information Technology Arrangements (SBITA). The object of this statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITA's; (b) improving the comparability of financial statements among governments that have entered into SBITA's; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITA's.

The District implemented GASB 99, Omnibus 2022. This statement enhances comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. The District reviewed all topics and implemented those applicable.

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.

Capital Assets

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

The costs for normal maintenance and repairs are not capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets in service are recorded at cost. Donations by developers are recorded at the acquisition price. Major outlays for capital assets and improvements are capitalized as projects are constructed and placed into service.

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

Asset:	Years:
Information Technology	3-20
Land Improvements	10-20
Security	5-15
Structures & Improvements	20
Tools, Furniture & Equipment	3-10
Vehicles	5
Utility Plant	10-100

Restricted Assets

In accordance with board resolutions separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses described below.

Rate Stabilization Account

The rate stabilization account segregates cash and cash equivalents reserved to prevent occurrence of unexpected revenue shortfalls, thus stabilizing rates regardless of high or low water sales due to fluctuating weather conditions. As consistent with Board Resolution, the District may transfer funds to the Rate Stabilization account.

Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. There may also be amounts due from developers, other Districts and municipalities. No allowance for uncollectible accounts is provided since the District has the power to record liens for its receivables and generally does not experience significant uncollectible amounts. Unbilled utility service receivables are recorded monthly.

Lease Receivables

The District is a lessor of space on District property for a cell tower. Lessor arrangements are included as lease receivables and deferred inflows of resources related to leases in the statement of net position. Lease receivables represent the District's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized based on the present value of expected lease payments over the lease term reduced by any provisions for estimate uncollectible amounts. Interest revenue is recognized ratably over the contract term. Deferred inflows of resources related to leases are recognized based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that related to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease. The deferred inflows related to leases are recognized on using the straight-line method over the lease term.

Inventories

Inventories are valued at average cost method which approximates the market value.

Deferred Outflows/Inflows

Deferred outflows of resources consist of deferred outflows related to pensions and OPEB. Deferred inflows of resources consist of deferred gains on refunding of debt that are being amortized over the remaining life of the debt, deferred inflows related to pensions and OPEB, and deferred inflows related to leases.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records accrued leave for compensated absences as an expense and liability.

Vacation leave, which may be accumulated up to eight weeks (320 hours) is payable upon termination only after the first six months of employment has been completed.

Sick leave, which may be accumulated up to eight weeks (320 hours) may have a portion cashed out directly into the employees HRA VEBA Trust account upon voluntary resignation termination, depending on years of service, on the following sliding scale:

Years of cumulative service:	Percent of accrued sick hours:
0-9 years	0%
10-14.99 years	25%
15-19.99 years	50%
20-24.99 years	75%
25+ years	100%

Subscription Liability

A subscription is defined as a contract that conveys control of the right to use another party's information technology software for a period of time in an exchange or exchange-like transaction. The District records a right to use subscription asset and corresponding subscription liability where total payments over the subscription period are greater than or equal to $5,000. The subscription liability is measured at the present value of subscription payments expected to be made during the subscription term. It is recorded at the subscription term's commencement when the subscription asset is placed into service. The subscription term excludes periods where either party can terminate the contract.

Pensions

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

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

Revenues

Service rates are authorized by resolutions passed by the Board of Commissioners. Billings are made to customers on a bi-monthly cyclical basis. Unbilled revenues for water service to customers between the last billing date and the end of the year are estimated on a pro rata basis and accrued at year-end.

Prepaid Expenses

Certain invoices paid to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Examples are: property insurance premiums, annual membership dues and service maintenance agreements.

NOTE 2 DEPOSITS AND INVESTMENTS

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's ex officio treasurer, King County, to have its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). As of December 31, 2023, the pool's net asset fair value price per share was $.9969.

As of December 31, 2023, the District had the following investments:

Investment Type	**Fair Value**	**Effective Duration**
King County Investment Pool	$35,877,162	.79 Years

Impaired Investments
As of December 31, 2023, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired investment pool principal is $11,608 and the District's fair value of these investments is $5,729.

Interest Rate Risk
As of December 31, 2023, the Pool's average duration was .79 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk
As of December 31, 2023, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

The District is a participant of the County Treasurer's pooled investment program for the purpose of maximizing earnings on investments and at the same time assuring liquidity and safety. Under this program, available funds of the District are mostly invested in securities, bankers' acceptances, commercial paper, and certificates of deposit. Funds in the pooled investment program can be used for disbursements at any time.

Restricted cash and cash equivalents were made up of the following:

	12/31/2023
Asset Replacement	$ 4,221,193
Emergency Operations	500,000
TOTALS	**$ 4,721,193**

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance 1/1/2023	Increases	Decreases	Ending Balance 12/31/2023
CAPITAL ASSETS, NOT BEING DEPRECIATED:				
Land and land rights	$ 1,482,399	$ ---	$ ---	$ 1,482,399
Construction in progress	7,166,603	3,926,534	(101,186)	10,991,951
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	**8,649,002**	**3,926,534**	**(101,186)**	**12,474,350**
CAPITAL ASSETS, BEING DEPRECIATED:				
Utility plant	184,257,642	3,568,645	(5,675)	187,820,612
Buildings and improvements	13,215,021	116,660	---	13,331,681
Equipment	7,378,114	883,703	(257,503)	8,004,314
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	**204,850,777**	**4,569,008**	**(263,178)**	**209,156,607**
LESS ACCUMULATED DEPRECIATION FOR:				
Utility plant	(52,409,876)	(3,728,318)	4,925	(56,133,269)
Buildings and improvements	(9,540,085)	(451,691)	---	(9,991,776)
Equipment	(5,180,749)	(452,906)	255,162	(5,378,493)
TOTAL ACCUMULATED DEPRECIATION	**(67,130,710)**	**(4,632,915)**	**260,087**	**(71,503,538)**
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	**137,720,067**	**(63,907)**	**(3,091)**	**137,653,069**
TOTAL CAPITAL ASSETS, NET	**$ 146,369,069**	**$3,862,627**	**$ (104,277)**	**$150,127,419**

The District has undivided interests in projects with another utility district. Each District was responsible for financing its share of construction. Each District is responsible for its proportionate share of on-going maintenance and operating costs. The following schedule shows the District's portion in each capital asset as included in the Statement of Net Position as of December 31, 2023:

Project	Ownership Interest	Completed Project
Covington Water District and Cedar River Water and Sewer District		
Four million gallon water storage tank, transmission mains, pumps and SCADA	67.2%	$ 1,781,736
Less: accumulated depreciation		(1,041,660)
Net book value		$ 740,076
Covington Water District and Cedar River Water and Sewer District		
West intertie vault, transmission mains and vault	50.0%	$ 22,266
Less: accumulated depreciation		(12,233)
Net book value		$ 10,033
Total Project Costs (Net Book Value)		**$ 750,109**

NOTE 4 CONSTRUCTION WORK-IN-PROGRESS

Construction Work-in-Progress represents expenses to date on projects whose authorizations total $22,576,699.

Construction Work-in-Progress is composed of the following at December 31, 2023:

	Project Authorization	Expended to 12/31/23	Committed	Required Future Financing
Capital Projects In Process	$22,576,699	$ 8,589,061	$13,987,638	$ ---

NOTE 5 LONG-TERM DEBT

Water Revenue Bonds

In 2013 the District issued water revenue bonds that are secured by, and payable solely from the Net Revenues of the District, as defined in the revenue bond agreement. The bonds have a principal amount of $8,865,000 and interest rates ranging from 2% to 4%, of which, $2,660,000 was used to refund the District's outstanding 2001 Bonds with interest rates ranging from 4.75% to 5.125%. The remaining $6,205,000 Revenue Bonds were issued to fund the District's Capital Improvement Projects. The 2013 bond issue resulted in a bond premium of $331,605 which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the life of the bonds.

This advance refunding was undertaken to reduce total debt service payments over the next eight years by $337,631 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $292,030. In February 2014, Moody's Investors Service confirmed the Aa3 rating on the District's 2013.

The District has covenants to establish, maintain and collect such rates and charges for water service (and for all other utility services that may be provided by the System) which, together with collections of assessments, are available for the payment of the principal and interest on the bonds and any Future Parity Bonds at an amount equal to at least 1.25 times the average debt service. There are other limitations and restrictions contained in the bond indenture. The District is in compliance with all significant limitations and restrictions including compliance with federal arbitrage requirements.

If any bond is not redeemed when properly presented at its maturity or date fixed for redemption, the District shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or date fixed for redemption until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund and the Bond has been called for payment by giving notice of that call to the Registered Owner.

On April 11, 2023 the Board of Commissioners passed resolution 4606 approving the early redemption of the 2013 Water System Improvement and Refunding Bonds. The bonds were redeemed on June 30, 2023 for a total payoff amount of $3,734,587, which included outstanding principal in the amount of $3,695,000 and accrued interest of $39,587.

Water Revenue Bonds currently outstanding are as follows:

Name of Bond Issue	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/23	Amount Issued in 2023	Amount Redeemed in 2023	Ending Outstanding Debt 12/31/23
2013 Bonds	Capital Improvements & Refunding 2001 Water Revenue Bonds / $8,865,000	2013	2033	2-4%	$ 4,005,000	$ ---	($4,005,000)	$ ---

<u>Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) loans</u>

The District has entered into loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund various capital improvement projects. The loans are secured by, and payable solely from the Net Revenues of the District, as defined in the loan agreements.

Delinquent payments on DWSRF and PWTF loans shall be assessed a monthly penalty beginning the first day past the due date of 1% per month or 12% per annum of the delinquent payment amount. Upon default in the payment of annual installment on a PWTF loan, the entire remaining balance of the loan, together with interest accrued, may be declared immediately due and payable. In that event, the District would be responsible for the payment of all related costs and legal fees incurred as part of the collection process.

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/23	Amount Issued in 2023	Amount Redeemed in 2023	Ending Outstanding Debt 12/31/23
DWSRF-264th Well	Capital Improvements / $2,322,163	2002	2023	1.50%	$ 145,135	---	(145,135)	$ ---
DWSRF-Tank 5 Rechlorination	Capital Improvements / $548,250	2002	2023	1.50%	34,266	---	(34,266)	---
PWTF-Filtration	Capital Improvements / $10,000,000	2011	2031	0.50%	4,865,438	---	(540,604)	4,324,834
DWSRF-Filtration	Capital Improvements / $2,020,000	2011	2035	1.50%	1,295,548	---	(99,657)	1,195,891
DWSRF-222nd	Capital Improvements / $1,100,000	2012	2036	1.50%	777,700	---	(55,550)	722,150
DWSRF-Filtration	Capital Improvements / $6,060,000	2012	2036	1.50%	2,393,836	---	(184,141)	2,209,695
	TOTALS				**$9,511,923**	**$ ---**	**$ (1,059,353)**	**$ 8,452,570**

Annual debt service requirements to maturity for the PWTF/DWSRF loans are as follows:

	Principal	Interest	Total
2024	$ 879,953	$ 82,456	$ 962,409
2025	879,953	74,747	954,700
2026	879,953	67,037	946,990
2027	879,953	59,327	939,280
2028	879,953	51,617	931,570
2029-2033	3,318,559	145,143	3,463,702
2034-2038	734,246	17,271	751,517
TOTAL	**$ 8,452,570**	**$497,598**	**$ 8,950,168**

Tacoma Repayment Agreement loans
Please see Note 9 Regional Water Supply System (RWSS) for a description of the RWSS and Second Supply Project. In the event of default on debt, the project committee may offer the district's partnership share, and therefore its rights and obligations, to the other partners. In addition, the remaining partners may enforce collection of any outstanding obligations at the district's expense.

2002 Second Supply Project Bond Issue
In 2002, the City of Tacoma issued $82,700,000 of Regional Water Supply System (RWSS) Revenue Bonds for the construction of a portion of the Second Supply Project. The District entered into a repayment agreement with the City in the amount of $17,822,335 to finance its share of construction costs. The District is obligated to pay debt service on the agreement in an amount that is consistent with 22.67% of Tacoma's debt service on the bonds, excluding the capitalized interest, under the terms of the Second Supply Project Agreements. The District's portion of the debt service related to the Tacoma bond was capitalized while the project was still in construction and has been expensed thereafter. The District's total project costs of $46 million were capitalized and are being amortized over the assets useful life.

In 2013, the City of Tacoma refinanced the 2002 RWSS bonds, which resulted in a bond premium. The District's share of the premium was $2,416,133, which is shown as a deferred inflow of resources on the Statement of Net Position and is being amortized over the remaining life of the debt.

See Note 14 Subsequent Events for additional information.

2010 Second Supply Project Bond Issue
In 2010, the City of Tacoma issued $44,245,000 of Regional Water Supply System (RWSS) Revenue Bonds to finance a portion of the costs of the Filtration Treatment Project for the Second Supply Project. The 2010 bonds issued are Build America Bonds (BABS) with a 35% government interest subsidy option. The District entered into a repayment agreement with the

City of Tacoma in 2010 in the amount of $11,595,000 to fund a portion of its share of costs related to the project. The federal government budget sequestration cuts reduced the BABS subsidy through the year 2023. Amounts reflected for interest in the table below are net of the 35% government interest subsidy, with a reduction of 7.2% of the 35% subsidy through 2023.

Subsequent to the 2010 repayment agreement with the City of Tacoma, the District received additional DWSRF and PWTF low interest loans for use in funding its portion of the Filtration Treatment project. Therefore, the 2010 repayment agreement with the City of Tacoma was amended in 2013 to allocate $8,080,000 of the District's bond proceeds back to Tacoma to be used toward their portion of the project funding.

2011 Filtration Loan

In 2010 the City of Tacoma was awarded a $6,060,000 loan for use in funding the Filtration Treatment project through the Drinking Water State Revolving Fund loan program. The District entered into a repayment agreement with the City of Tacoma in 2011 for an amount up to $3,030,000 to fund a portion of its share of costs related to the project. The District ended up using $2,727,000 of this loan. In 2016 the repayment agreement with Tacoma was amended to show the loan allocation to Covington Water District of $2,727,000.

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/23	Amount Issued in 2023	Amount Redeemed in 2023	Ending Outstanding Debt 12/31/23
City of Tacoma SSP Repayment Agreement	Capital Improvements / $17,822,335	2002	2032	4%-5%	$11,761,667	$ ---	$(453,750)	$11,307,917
City of Tacoma SSP Repayment Agreement	Capital Improvements / $3,515,000	2010	2040	5.62%	3,515,000	---	---	3,515,000
City of Tacoma Filtration Loan	Capital Improvements / $2,727,000	2011	2034	1.50%	1,644,727	---	(137,061)	1,507,666
	TOTALS				**$16,921,394**	**$ ---**	**$(590,811)**	**$16,330,583**

Annual debt service requirements to maturity for the SSP Repayment Agreements are as follows:

	Principal	Interest	Total
2024	$ 1,186,645	$ 673,587	$ 1,860,232
2025	1,241,227	619,052	1,860,279
2026	1,292,061	561,787	1,853,848
2027	1,351,644	501,981	1,853,625
2028	1,408,310	439,196	1,847,506
2029-2033	6,583,635	1,244,983	7,828,618
2034-2038	2,292,061	422,225	2,714,286
2039-2043	975,000	53,705	1,028,705
TOTAL	**$16,330,583**	**$4,516,516**	**$20,847,099**

The annual debt service requirements to maturity on all debts outstanding as of December 31, 2023 including interest are as follows:

Year	Principal	Interest	Total
2024	$2,066,598	$756,043	$2,822,641
2025	2,121,180	693,799	2,814,979
2026	2,172,014	628,824	2,800,838
2027	2,231,597	561,308	2,792,905
2028	2,288,263	490,813	2,779,076
2029-2033	9,902,194	1,390,126	11,292,320
2034-2038	3,026,307	439,496	3,465,803
2039-2043	975,000	53,705	1,028,705
TOTALS	**$ 24,783,153**	**$5,014,114**	**$29,797,267**

<u>Changes in Long-Term Liabilities</u>
During the year ended December 31, 2023, the following changes occurred in long-term liabilities:

ID No.	Description	Beginning Balance 1/1/23	Additions	Reductions	Ending Balance 12/31/23	Due within one year
252.11	Water Revenue Bonds	$ 4,005,000	$ ---	$ (4,005,000)	$ ---	$ ---
259.12	Compensated Absences	427,834	74,193	---	502,027	322,690
263.56	Subscription Liabilities	---	44,462	(7,219)	37,243	14,399
263.82	PWTF/DWSRF Loans	9,511,923	---	(1,059,353)	8,452,570	879,953
263.82	SSP Repayment Agreements	16,921,394	---	(590,811)	16,330,583	1,186,645
264.30	Pension Liabilities	577,422	---	(85,174)	492,248	---
264.40	OPEB Liabilities	1,168,097	---	(168,163)	999,934	13,830
	TOTALS	**$32,611,670**	**$ 118,655**	**$(5,915,720)**	**$26,814,605**	**$ 2,417,517**

NOTE 6 RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports a restricted component of net position, which is restricted by enabling legislation for the following purposes:

	12/31/23
Pensions	$ 1,441,855
Rate stabilization	2,006,722
TOTAL	**$ 3,448,577**

NOTE 7 PENSIONS-STATE SPONSORED (DRS) PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (492,248)
Pension assets	1,137,876
Deferred outflows of resources	969,401
Deferred inflows of resources	(645,380)
Pension expense/expenditures	(156,686)

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

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

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of local governments; and higher education employees not participating in higher education retirement programs.

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions
The PERS Plan 1 member contribution rate is established by state statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

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

* For employees participating in JBM, the contribution rate was 12.26%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

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

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

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

Actual Contribution Rates	**Employer 2/3**	**Employee 2***	**Employee 3****
January – June			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	3.85%		
Administrative Fee	0.18%		
Total	**10.39%**	**6.36%**	
July– August			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.85%		
Administrative Fee	0.18%		
Total	**9.39%**	**6.36%**	
September– December			
PERS Plan 2/3	6.36%	6.36%	Varies
PERS Plan 1 UAAL	2.97%		
Administrative Fee	0.20%		
Total	**9.53%**	**6.36%**	

* For employees participating in JBM, the contribution rate was 15.90%
**For employees participating in JBM, the minimum contribution rate was 7.50%

The District’s actual PERS plan contributions were $144,376 to PERS Plan 1 and $268,299 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

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

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

- **Inflation**: 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service based salary increase.
- **Investment rate of return**: 7.00%

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

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). OSA did make an assumption change to adjust TRS Plan 1 assets, LEOFF Plan ½ assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022 measurement date.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	**Target Allocation**	**% Long-Term Expected Real Rate of Return Arithmetic**
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	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%, 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%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	**Current Discount Rate (7%)**	**1% Increase (8%)**
PERS 1	$ 687,708	$ 492,248	$ 321,658
PERS 2/3	1,237,577	(1,137,876)	(3,089,461)

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, 2023, the District reported its proportionate share as follows:

	Liability (or Asset)
PERS 1	$ (492,248)
PERS 2/3	1,137,876

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	.020738%	.021564%	002155%
PERS 2/3	.027120%	.027762%	.000642%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Non-employer Allocations for all plans except LEOFF 1.

Pension Expense

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

	Pension Expense
PERS 1	$ 8,563
PERS 2/3	(165,249)
TOTAL	**$ (156,686)**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ ---	$ ---
Net difference between projected and actual investment earnings on pension plan investments	---	(55,528)
Changes of assumptions	---	---
Changes in proportion and differences between contributions and proportionate share of contributions	---	---
Contributions subsequent to the measurement date	75,570	---
TOTAL	**$75,570**	**($55,528)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 231,784	$ (12,714)
Net difference between projected and actual investment earnings on pension plan investments	---	(428,821)
Changes of assumptions	477,720	(104,124)
Changes in proportion and differences between contributions and proportionate share of contributions	29,691	(44,194)
Contributions subsequent to the measurement date	154,636	---
TOTAL	**$ 893,831**	**$ (589,852)**

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

Year ended December 31:	PERS 1
2024	$ (37,779)
2025	(47,511)
2026	29,295
2027	468
2028	---
Thereafter	---

Year ended December 31:	PERS 2/3
2024	$ (208,223)
2025	(253,680)
2026	352,100
2027	129,525
2028	127,312
Thereafter	2,309

NOTE 8 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington Deferred Compensation Program. The plan is available to eligible employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Deferred Compensation Plan provides for a maximum annual contribution of $22,500. In addition, participants may be eligible for a catch-up contribution which would increase the maximum to $30,000. The District employees' total deferred compensation plan contribution for the year 2023 was $255,481. Total employees' actual deferred contribution since joining the plan is $2,236,840.

NOTE 9 REGIONAL WATER SUPPLY SYSTEM

The Regional Water Supply System (RWSS) is a partnership formed by Covington Water District, City of Tacoma, City of Kent and Lakehaven Water & Sewer District (the "Participants") to provide them with additional water supply on a long term basis. The Participants have rights and obligations consistent with the following fractional shares: City of Tacoma – 15/36; City of Kent – 7/36; Covington Water District – 7/36; Lakehaven Water & Sewer District – 7/36 ("Participant Shares"). Each Participant has a right, among others, to receive Second Diversion Water and Storage and each has an obligation to pay its Participant Share of the costs of the Project ("Project Costs"). Project Costs include fixed and variable operation and maintenance costs, initial project construction costs and capital expenditures. The City of Tacoma, consistent with the project agreement, is the owner and operator of the Second Supply Project.

The Regional Water Supply System (RWSS) completed construction of a filtration plant in 2015 as part of the Second Supply Project (SSP) to meet an Environmental Protection Agency mandate. For this project only, the District's share of cost was only 11.7%, as the City of Tacoma has a higher share of costs for additional usage of the filtration plant.

Information about current debt related to the District's participation in the RWSS can be found in Note 5 Long-Term Debt.

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks including, but not limited to, damage to personal and real property, general liability, automotive liability, theft, public officials' errors and omissions, and natural disasters. To protect itself against these risks, the District is a member of the Water and Sewer Risk Management Pool (Pool). 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 services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal

Cooperation Act. The Pool was formed in November 1987 when water and sewer Districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 72 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$275,000,000 (D)
Flood	See (A) below	See (A) below	$20,000,000
Earthquake	See (B) below	See (B) below	$100,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood)
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$25,000	$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	$1,000 - $25,000	$500,000	$10,000,000
Auto Liability	$1,000 - $25,000	Same as above	$10,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	Same as above	$10,000,000
Employment Practices	$1,000 - $25,000	Same as above	$10,000,000
Other:			
Cyber Liability	$50,000	N/A	$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000
A. $100,000 member deductibles, per occurrence, in flood zones except zones A&V; $250,000 member deductible per occurrence, in flood zones A&V.			
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber Liability is $50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			
D. In 2017 Covington Water District secured property insurance coverage specific to certain underground segments of pipes with a total insurable value of approximately $3.78M.			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds $25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2023, written notice must be in possession of the Pool by April 30, 2023). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

NOTE 11 OPEB DEFINED BENEFIT PLAN-NO QUALIFYING TRUST

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2023:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$ 999,934
Deferred outflows of resources	6,915
OPEB expenses/expenditures	(153,439)

OPEB Plan Description

The District is a participating employer in the state of Washington's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides other post-employment benefits (OPEB) through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare

Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 39 active plan members and 2 retired plan member as of December 31, 2023. The District payments were $14,724 to the plan for the year ended December 31, 2023.

Assumptions and Other Inputs

The District's total OPEB liability was measured as of June 30, 2023 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Office of the State Actuary.

Methodology	
Actuarial Valuation Date	6/30/2023
Actuarial Measurement Date	6/30/2023
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions	
Discount Rate[1]	
Beginning of Measurement Year	3.54%
End of Measurement Year	3.65%
Projected Salary Changes	3.25% + Service-Based Increases
Healthcare Trend Rates[2]	Initial rate ranges from about 2-16%, reaching an ultimate rate of approximately 3.8% in 2075.
Mortality Rates	
Base Mortality Table	PubG.H-2010 (General)
Age Setback	0 years
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Inflation Rate[3]	2.35%
Post-Retirement Participation Percentage	60%
Percentage with Spouse Coverage	45%

1-The source of the discount rate is the Bond Buyer General Obligation 20-Bond Municipal Index.
2-Trend rate assumptions vary by medical plan. For additional detail on the healthcare trend rates, please see our PEBB OPEB Healthcare Trend Assumptions webpage at https://leg.wa.gov/osa/additionalservices/Pages/PEBBOPEBHealthcareTrendAssumptions.aspx
3-Based on the Consumer Price Index (CPI): Urban Wage Earners & Clerical Workers, U.S. City Average, WA-All Items.

The following presents the total OPEB liability of the district calculated using the current healthcare cost trend rate of 5.6 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.6 percent) or 1-percentage point higher (6.6 percent) that the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	$813,298	$999,934	$1,244,563

The following presents the total OPEB liability of the district calculated using the discount rate of 3.65 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.65 percent) or 1-percentage point higher (4.65 percent) that the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	$1,204,709	$999,934	$837,724

Changes in the Total OPEB Liability

PEBB	
Total OPEB Liability at 01/01/2023	$ 1,168,097
Service cost	57,170
Interest	43,116
Changes in Experience Data & Assumptions	(253,725)
Changes of benefit terms	---
Benefit payments	(14,724)
Other changes	---
Total OPEB Liability at 12/31/2023	$ 999,934

The District recognized OPEB expense for the years ended December 31, 2023 as follows:

Service Cost	$57,170
Interest Cost	43,116
Changes in Experience Data & Assumptions	(253,725)
Total OPEB Expense	**$(153,439)**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ ---	$ ---
Changes in experience data & assumptions	--	---
Payment subsequent to the measurement date	6,915	---
TOTAL	**$ 6,915**	**$ ---**

Deferred outflows of resources of $6,915 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2024.

NOTE 12 LEASE RECEIVABLES

The District is a lessor of space on District property for a cell tower. The District has recorded lease receivables and deferred inflows of resources related to leases based on the present value of expected receipts over the term of the lease. The expected receipts are discounted using an interest rate based on the 5-year treasury rate.

Future lease payments are as follows:

	PRINCIPAL	INTEREST	TOTAL
2024	$24,249	$1,086	$25,335
2025	24,976	1,119	26,095
2026	25,725	1,153	26,878
2027	26,497	1,188	27,685
2028	27,292	1,224	28,516
TOTAL	$128,739	$5,770	$134,509

NOTE 13 SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA'S)

A SBITA is a contract that conveys control of the right to use another party's (a SBITA Vendor's) information technology software, alone or in combination with tangible capital assets as specified in the contract for a period of time in an exchange or exchange-like transaction. Most of the District's subscription arrangements are excluded from GASB 96 as they are short-term or perpetual licenses as defined under GASB 96. The District records a right to use subscription asset and corresponding subscription liability where total payments for the fixed cost over the subscription term are greater than or equal to $5,000. Subscriptions not meeting the capitalization criteria are recognized as current period expenses.

In July 2023, the District entered into a 36-month SBITA with a vendor for its digital phone system software. The District recorded a SBITA asset and liability using a discounted rate equal to the 5-year treasury rate of 4.48%.

Subscription asset:

	Beginning Balance 12/31/22	Increases	Decreases	Ending Balance 12/31/23
SBITA Asset	$ ---	$44,462	$ ---	$44,462
Accumulated Amortization	---	(7,410)	---	(7,410)
Book Value	$ ---	$37,052	$ ---	$37,052

Subscription liability:

	Principal	Interest	Total
2024	$14,399	$1,375	$15,774
2025	15,058	717	15,775
2026	7,786	102	7,888
TOTAL	$37,243	$2,194	$39,437

NOTE 14 SUBSEQUENT EVENTS

On February 13, 2024 the Board of Commissioners approved resolution no. 4662, approving the early redemption of the District share of the 2013 Regional Water Supply System (RWSS) 2013 Water Revenue Bonds (see footnote 5). The Board of Commissioners authorized the General Manager to authorize agreements related to the redemption in the amount of $10,580,727.80 plus any administrative fees and/or expenses. The bonds were redeemed on February 14, 2024.

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of the Net Pension Liability
As of June 30
Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.021564%	0.020738%	0.022893%	0.022248%	0.023366%	0.024305%	0.023781%	0.024848%	0.027160%
Employer's proportionate share of the net pension liability (asset)	$	492,248	577,422	279,577	785,475	898,506	1,085,470	1,128,427	1,334,455	1,420,721
Covered payroll	$	3,504,096	3,415,584	3,388,901	3,248,095	3,286,444	3,229,974	3,004,802	2,965,587	3,027,537
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	14.05%	16.91%	8.25%	24.18%	27.34%	33.61%	37.55%	45.00%	46.93%
Plan fiduciary net position as a percentage of the total pension liability	%	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

Public Employees' Retirement System Plan 2/3

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.027762%	0.027120%	0.029395%	0.028984%	0.030169%	0.031153%	0.030554%	0.031740%	0.033333%
Employer's proportionate share of the net pension liability (asset)	$	-1,137,876	-1,005,821	-2,928,215	370,689	293,044	531,910	1,061,605	1,598,084	1,191,007
Covered payroll	$	3,504,096	3,415,584	3,388,901	3,248,095	3,286,444	3,227,124	3,002,180	2,962,053	2,960,140
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	-32.47%	-29.45%	-86.41%	11.41%	8.92%	16.48%	35.36%	53.95%	40.23%
Plan fiduciary net position as a percentage of the total pension liability	%	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

Notes to schedule:

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

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Employer Contributions
For the year ended December 31
Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	144,376	125,191	151,671	153,283	167,459	164,484	153,948	140,442	130,198
Contributions in relation to the statutorily or contractually required contributions	$	(144,376)	(125,191)	(151,671)	(153,283)	(167,459)	(164,484)	(153,948)	(140,442)	(130,198)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0	0
Covered payroll	$	4,218,531	3,336,684	3,511,935	3,196,077	3,393,444	3,245,998	3,137,785	2,940,565	2,961,043
Contributions as a percentage of covered payroll	%	3.42%	3.75%	4.32%	4.80%	4.93%	5.07%	4.91%	4.78%	4.40%

Public Employees' Retirement System Plan 2/3

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	268,299	212,214	252,111	253,130	261,767	243,519	215,555	183,020	166,612
Contributions in relation to the statutorily or contractually required contributions	$	(268,299)	(212,214)	(252,111)	(253,130)	(261,767)	(243,519)	(215,555)	(183,020)	(166,612)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0	0
Covered payroll	$	4,218,531	3,336,684	3,511,935	3,196,077	3,393,444	3,244,516	3,135,049	2,937,715	2,956,465
Contributions as a percentage of covered payroll	%	6.36%	6.36%	7.18%	7.92%	7.71%	7.51%	6.88%	6.23%	5.64%

Notes to schedule:

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

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
Public Employees' Benefit Board (PEBB) Health Insurance Plan
For the year ended June 30
Last 10 Fiscal Years*

	PEBB 2023	2022	2021	2020	2019	2018
Total OPEB liability - beginning	$ 1,168,097	$ 1,448,315	$ 1,676,333	$ 1,213,541	$ 1,186,689	$ 1,131,025
Service cost	57,170	96,153	122,091	74,928	78,627	95,966
Interest	43,116	33,244	39,684	45,022	48,876	43,888
Changes in benefit terms	-	-	-	-	-	-
Differences between expected and actual experience	(253,725)	-	-	-	-	-
Changes of assumptions		(398,804)	(384,269)	347,104	(95,872)	(82,034)
Benefit payments	(14,724)	(10,811)	(5,524)	(4,262)	(4,779)	(2,156)
Other changes	-	-	-	-	-	-
Total OPEB liability - ending	999,934	1,168,097	1,448,315	1,676,333	1,213,541	1,186,689
Covered-employee payroll	4,295,330	3,871,134	3,563,250	3,579,835	3,453,740	3,229,225
Total OPEB liability as a % of covered payroll	23.28%	30.17%	40.65%	46.83%	35.14%	36.75%

Notes to Schedule:

* 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.