



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Covington Water District

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

Published October 31, 2023

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

October 31, 2023

Board of Commissioners
Covington Water District
Covington, Washington

Report on Financial Statements

Please find attached our report on the Covington Water District's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Covington Water District January 1, 2022 through December 31, 2022

Board of Commissioners
Covington Water District
Covington, 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 the Covington Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

October 30, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Covington Water District January 1, 2022 through December 31, 2022

Board of Commissioners
Covington Water District
Covington, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Covington Water District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Covington Water District, as of December 31, 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

October 30, 2023

**Covington Water District
January 1, 2022 through December 31, 2022**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

Statement of Revenues, Expenses and Changes in Fund Net Position – 2022

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2022

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022

Schedule of Changes in Total OPEB Liability and Related Ratios – 2022

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

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, 2022. 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 \$162 million as of December 31, 2022.
- The district had a positive change in net position of \$4 million for the year ended December 31, 2022.
- The district's required bond debt service coverage ratio was 17.63 as of December 31, 2022. This far exceeds the minimum requirement identified in the bond covenants of 1.25.

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, 2022 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

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

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

	2022	2021	Increase (Decrease)	% Change
Capital assets	\$146,369,070	\$146,985,188	(\$616,118)	-0.42%
Other assets	51,335,600	51,583,013	(247,413)	-0.48%
TOTAL ASSETS	197,704,670	198,568,201	(863,531)	-0.43%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,028,920	351,057	677,863	193.09%
Long-term liabilities	30,323,062	32,160,979	(1,837,917)	-5.71%
Other liabilities	3,942,138	4,216,683	(274,545)	-6.51%
TOTAL LIABILITIES	34,265,200	36,377,662	(2,112,462)	-5.81%
TOTAL DEFERRED INFLOWS OF RESOURCES	2,437,619	4,585,537	(2,147,918)	-46.84%
Net investment in capital assets	114,451,294	112,510,281	1,941,013	1.73%
Restricted net position	4,074,637	2,986,440	1,088,197	36.44%
Unrestricted net position	43,504,840	42,459,338	1,045,502	2.47%
TOTAL NET POSITION	\$162,030,771	\$157,956,059	\$4,074,712	2.58%

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

Analysis of the Statement of Net Position

- Capital assets consist of land, construction work in progress, and property & equipment, less accumulated depreciation. The decrease in capital assets of \$616k, approximately .42%, 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 \$247k is primarily related to the increase in cash and inventory, net of the decrease in net pension asset.
- The increase in deferred outflows of resources of \$677k is due to the net increase in deferred outflows related to pensions and deferred outflows related to OPEB.
- The decrease in long-term liabilities of \$1.8M or 5.71% is primarily due to the continued paydown of debt.
- The decrease in other liabilities from 2021 to 2022 of \$274k or 6.51% is primarily related to the continued paydown of debt.
- The decrease in deferred inflows of resources of \$2.1 million 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 \$4 million from 2021 to 2022 as a direct result of the overall positive net change in position during 2022.

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 9.9 (\$38.9M cash/\$3.9M current liabilities) for 2022. While there are no set 'rules' regarding Quick Ratios, district management believes this is a very healthy ratio.

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

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

	2022	2021	Increase (Decrease)	% Change
Operating revenues	15,800,002	15,849,662	(49,660)	-0.31%
Nonoperating revenues	580,821	333,003	247,818	74.42%
TOTAL REVENUES	16,380,823	16,182,665	198,158	1.22%
Operating expenses	8,856,559	7,375,981	1,480,578	20.07%
Depreciation	4,538,296	4,525,375	12,921	0.29%
Nonoperating expenses	813,877	853,775	(39,898)	-4.67%
TOTAL EXPENSES	14,208,732	12,755,131	1,453,601	11.40%
EXCESS (DEFICIENCY) BEFORE ANY CONTRIBUTIONS	2,172,091	3,427,534	(1,255,443)	-36.63%
CONTRIBUTIONS	1,902,621	6,941,661	(5,039,040)	-72.59%
CHANGE IN NET POSITION	4,074,712	10,369,195	(6,294,483)	-60.70%
ENDING NET POSITION	162,030,771	157,956,057	4,074,714	2.58%

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

- Operating revenues decreased .31% in 2022, primarily due to a slight decrease in residential water sales.
- Nonoperating revenues increased from 2021 to 2022, primarily due to increase in interest income, directly related to the increased carrying value of cash on hand.
- Operating expenses increased in 2022 by \$1.4M, or 20.07%, 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 2022 is reasonable based on the assets in service.

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

- The decrease in 2022 from 2021 of non-operating expenses of 4.67% is due to the reduction in interest expense as debts continue to pay 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 decrease from the prior year in total capital contributions of 72.59% in 2022.
 - **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, decreased in 2022 from 2021 by 80%.
 - **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 2022 were 67% lower 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 decreased in 2022 from the prior year by 80%.

COVINGTON WATER DISTRICT
Management’s Discussion and Analysis (MD&A)
For the year ended December 31, 2022

The district recorded a positive change in Net Position in 2022 of \$4 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 2022, 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 2023.

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 decrease of \$616,119 in net capital assets consisted of:

Item	Net Increase (Decrease)
Donated assets (infrastructure donated by developers & customers)	\$ 565,917
Net book value of asset disposals	(1,269)
Capital asset additions	3,007,034
Construction work in progress	350,495
Depreciation	(4,538,296)
Net increase	\$ (616,119)

- The \$565k in donated assets in 2022 consists of 5 developer extension projects that range in amounts from approximately \$26k to \$123k, in addition to donated meters from customers.

COVINGTON WATER DISTRICT
Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2022

- The \$3 million 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 \$350k 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, 2022, in addition to the projects that have been completed and closed out to capital assets.

Long Term Debt

	Beginning Balance 1/1/2022	Additions	Reductions	Ending Balance 12/31/2022	Due in 1 year	Long term portion
Water Revenue Bonds	\$ 4,305,000	\$ ---	\$ (300,000)	\$ 4,005,000	\$ 310,000	\$ 3,695,000
PWTF/DWSRF Loans	11,102,525	---	(1,590,602)	9,511,923	1,059,354	8,452,569
SSP Repayment Agreements	17,440,117	---	(518,724)	16,921,393	590,811	16,330,582
TOTALS	\$ 32,847,642	\$ ---	\$ (2,409,326)	\$ 30,438,316	\$ 1,960,165	\$ 28,478,151

The district is required to establish, maintain and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. Although the bond covenant allows the use of connection charge revenue (i.e. cash capital contributions) in the calculation of debt service coverage, the district has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenues to bond debt service, without consideration of connection charge revenue. The board of commissioners debt coverage ratio, without considering connection charge revenue, was 17.63 for the year ended December 31, 2022. This indicates that the district is not only meeting the requirements mandated by the bond covenant, but also meets the more stringent and conservative internal policy. The less stringent calculation required by the bond covenants with connection charge revenue yields a ratio for the year ended December 31, 2022 of 14.55.

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

OTHER POTENTIALLY SIGNIFICANT MATTERS

In 2023, The Board of Commissioners approved the early redemption of debt for both the District's 2013 Water Revenue Bonds and the District's share of the 2013 Regional Water Supply System (RWSS) Water Revenue Bonds. For additional information, see Note 12 in the notes to the financial statements.

COVINGTON WATER DISTRICT

Statement of Net Position

December 31, 2022

ASSETS

Current assets:	
Cash and cash equivalents - unrestricted	\$ 38,947,104
Cash and cash equivalents - restricted	4,601,172
Accounts receivable - customer	931,277
Accrued unbilled water charges	926,229
Accrued interest receivable	70,212
WD #111 Receivable, current portion	41,746
Restricted current assets:	
Rate Stabilization account	2,000,000
Water Revenue Bond account	377,834
Bond Sinking account	683,581
Accrued interest receivable - restricted	4,916
Developer Deposits	174,874
Inventory	538,076
Prepaid expenses	351,436
TOTAL CURRENT ASSETS	<u>49,648,457</u>
Noncurrent assets:	
Other accounts receivable	26,101
Net Pension Asset	1,005,821
WD #111 Receivable, net of current portion	655,221
Capital assets not being depreciated:	
Land and land rights	1,482,399
Construction work in progress	7,166,603
Capital assets being depreciated:	
Utility Plant	204,850,777
Accumulated depreciation	<u>(67,130,709)</u>
TOTAL NONCURRENT ASSETS	<u>148,056,213</u>
TOTAL ASSETS	<u>\$ 197,704,670</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	\$ 1,022,636
Deferred outflows related to OPEB	6,284
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,028,920</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued liabilities	\$ 1,386,068
Accrued compensated absences	315,873
Accrued interest on bonds and loans payable	92,589
Water Revenue Bonds, current portion	310,000
PWTF/DWSRF loans, current portion	1,059,354
SSP repayment agreements, current portion	590,811
Total OPEB liability, current portion	12,569
Developer deposits	174,874
TOTAL CURRENT LIABILITIES	<u>3,942,138</u>
Noncurrent liabilities:	
Accrued compensated absences	111,961
Water Revenue Bonds, net of current portion	3,695,000
PWTF/DWSRF loans, net of current portion	8,452,569
SSP repayment agreements, net of current portion	16,330,582
Net Pension Liability	577,422
Total OPEB Liability, net of current portion	<u>1,155,528</u>
TOTAL NONCURRENT LIABILITIES	<u>30,323,062</u>
TOTAL LIABILITIES	<u>\$ 34,265,200</u>

DEFERRED INFLOWS OF RESOURCES

Deferred gain on refunding	\$ 1,386,871
Deferred inflows related to pensions	1,050,748
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 2,437,619</u>

NET POSITION

Net investment in capital assets	\$ 114,451,294
Restricted net position	4,074,637
Unrestricted net position	43,504,840
TOTAL NET POSITION	<u>\$ 162,030,771</u>

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

COVINGTON WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position For the year ended December 31, 2022

OPERATING REVENUES

Water service	\$ 15,042,528
Street light revenue	206,379
Other miscellaneous revenues	551,095
TOTAL OPERATING REVENUE	<u>15,800,002</u>

OPERATING EXPENSES

Total production costs-CWD water	432,751
Total purchased water	945,564
Operations Department	2,023,663
Engineering Department	986,394
Customer Service, Finance, and Information Technology	2,174,765
Administration	1,387,914
Street light expense	177,950
Taxes	727,558
Depreciation expense	4,538,296
TOTAL OPERATING EXPENSES	<u>13,394,855</u>

OPERATING INCOME (LOSS)

2,405,147

NONOPERATING REVENUES (EXPENSES)

Interest income	513,124
Miscellaneous income	23,914
Gain (Loss) on capital asset disposition	43,783
Interest expense on debt financing	(813,877)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(233,056)</u>
INCOME BEFORE CONTRIBUTIONS	2,172,091

Capital contributions:

Meter installation charges	34,330
Connection charges	1,302,374
Donated capital assets	565,917
Total capital contributions	<u>1,902,621</u>
CHANGE IN NET POSITION	4,074,712

TOTAL NET POSITION, beginning

157,956,059

TOTAL NET POSITION, ending

\$ 162,030,771

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

COVINGTON WATER DISTRICT

Statement of Cash Flows For the year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from water customers, net of refunds, etc.	\$ 15,825,826
Payments to suppliers	(3,817,276)
Payments to employees	(5,897,306)
Net cash provided by operating activities	<u>6,111,244</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Contributions	1,378,760
Purchase of capital assets	(3,356,261)
Principal paid on capital debt	(2,409,332)
Interest paid on capital debt	(961,675)
Other receipts (payments)	116,972
Net cash provided (used) by capital and related financing activities	<u>(5,231,536)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>455,978</u>
Net cash provided by investing activities	<u>455,978</u>

Net Increase (Decrease) in Cash 1,335,686

Balance, Beginning of Period 45,448,879

Balance, End of Period \$ 46,784,565

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income (loss)	\$ 2,405,147
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	4,538,296
Change in assets and liabilities:	
Receivables, net	25,824
Inventory	(247,828)
Accrued expenses and payables	136,130
Pension/OPEB	(746,325)
Net cash provided by operating activities	<u><u>\$ 6,111,244</u></u>

SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH CAPITAL AND FINANCING TRANSACTIONS

Developer contributions to utility plant \$ 565,917

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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.

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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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 (and certain debt agreements) 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.

Water Revenue Bond Account

The Water Revenue Bond account (Bond account) was created by Board Resolution for the purpose of paying and securing bond principal and interest. Payments from revenues of the District are required to be made to the Bond account in annual amounts sufficient to retire serial bonds on or before maturity and to satisfy the bond account requirements for redemption of term bonds scheduled to mature in 2033.

Bond Sinking Account

The Bond Sinking account was established and fully funded at an amount of \$683,581 as part of the 2013 bond issue to meet the reserve requirement.

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

for its receivables and generally does not experience significant uncollectible amounts. Unbilled utility service receivables are recorded monthly.

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, along with deferred inflows related to pensions and OPEB.

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%

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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, 2022, the pool's net asset fair value price per share was \$.9736.

As of December 31, 2022, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$46,026,593	.99 Years

Impaired Investments

As of December 31, 2022, 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 \$13,888 and the District's fair value of these investments is \$7,791.

Interest Rate Risk

As of December 31, 2022, the Pool's average duration was .99 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, 2022, 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 depositories, 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,

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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 at December 31:

	12/31/2022
Asset Replacement	\$ 4,101,172
Emergency Operations	500,000
TOTALS	\$ 4,601,172

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance 1/1/2022	Increases	Decreases	Ending Balance 12/31/2022
CAPITAL ASSETS, NOT BEING DEPRECIATED:				
Land and land rights	\$ 1,482,399	\$ ---	\$ ---	\$ 1,482,399
Construction in progress	6,816,108	3,443,566	(3,093,071)	7,166,603
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	8,298,507	3,443,566	(3,093,071)	8,649,002
CAPITAL ASSETS, BEING DEPRECIATED:				
Utility plant	181,044,641	3,213,001	---	184,257,642
Buildings and improvements	13,033,539	181,482	---	13,215,021
Equipment	7,261,624	178,468	(61,978)	7,378,114
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	201,339,804	3,572,951	(61,978)	204,850,777
LESS ACCUMULATED DEPRECIATION FOR:				
Utility plant	(48,771,420)	(3,638,455)	---	(52,409,875)
Buildings and improvements	(9,096,010)	(444,075)	---	(9,540,085)
Equipment	(4,785,692)	(455,766)	60,709	(5,180,749)
TOTAL ACCUMULATED DEPRECIATION	(62,653,122)	(4,538,296)	60,709	(67,130,709)
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	138,686,682	(965,345)	(1,269)	137,720,068
TOTAL CAPITAL ASSETS, NET	\$ 146,985,189	\$2,478,221	\$ (3,094,340)	\$146,369,070

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, 2022:

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		(1,008,995)
Net book value		<u>\$ 772,741</u>

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

Covington Water District and Cedar River Water and Sewer District		
West intertie vault, transmission mains and vault	50.0%	\$ 22,266
Less: accumulated depreciation		(11,824)
Net book value		\$ 10,442
Total Project Costs (Net Book Value)		\$ 783,183

NOTE 4 CONSTRUCTION WORK-IN-PROGRESS

Construction Work-in-Progress represents expenses to date on projects whose authorizations total \$17,968,341.

Construction Work-in-Progress is composed of the following at December 31, 2022:

	Project Authorization	Expended to 12/31/22	Committed	Required Future Financing
Capital Projects In Process	\$17,968,341	\$ 7,166,601	\$10,801,740	\$ ---

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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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 1/1/22	Amount Issued in 2022	Amount Redeemed in 2022	Ending Outstanding Debt 12/31/22
2013 Bonds	Capital Improvements & Refunding 2001 Water Revenue Bonds / \$8,865,000	2013	2033	2-4%	\$ 4,305,000	\$ ---	(\$300,000)	\$ 4,005,000
	TOTALS				\$ 4,305,000	\$ ---	(\$300,000)	\$ 4,005,000

Water Revenue Bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2023	\$ 310,000	\$ 124,410	\$ 434,410
2024	315,000	113,460	428,460
2025	330,000	100,560	430,560
2026	340,000	88,860	428,860
2027	355,000	78,435	433,435
2028-2032	1,930,000	222,505	2,152,505
2033-2037	425,000	6,798	431,798
TOTAL	\$ 4,005,000	\$ 735,028	\$ 4,740,028

Bond Covenant calculation for the year 2022:

Operating revenues	\$ 15,800,002
Operating expenses*	(9,972,868)
Interest income (excluding restricted funds)	458,017
Miscellaneous income	23,914
Meter installation charges	34,330
Facility charges	1,302,374
Balance available for debt service	\$ 7,645,769
Debt service	\$ 433,560
Debt service ratio (minimum 1.25)	17.63

*Operating expenses for the purpose of this calculation exclude depreciation and include principal and interest paid on the City of Tacoma loans related to the second supply project.

Public Works Trust Fund (PWTF) and Drinking Water State Revolving Fund (DWSRF) loans

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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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 1/1/22	Amount Issued in 2022	Amount Redeemed in 2022	Ending Outstanding Debt 12/31/22
SSP	Capital Improvements / \$10,000,000	2002	2022	0.50%	\$ 531,250	\$ ---	\$ (531,250)	\$ ---
DWSRF-264 th Well	Capital Improvements / \$2,322,163	2002	2023	1.50%	290,270	---	(145,135)	145,135
DWSRF-Tank 5 Rechlorination	Capital Improvements / \$548,250	2002	2023	1.50%	68,529	---	(34,263)	34,266
PWTf-Filtration	Capital Improvements / \$10,000,000	2011	2031	0.50%	5,406,044	---	(540,606)	4,865,438
DWSRF-Filtration	Capital Improvements / \$2,020,000	2011	2035	1.50%	1,395,204	---	(99,656)	1,295,548
DWSRF-222 nd	Capital Improvements / \$1,100,000	2012	2036	1.50%	833,250	---	(55,550)	777,700
DWSRF-Filtration	Capital Improvements / \$6,060,000	2012	2036	1.50%	2,577,978	---	(184,142)	2,393,836
	TOTALS				\$11,102,525	\$ ---	\$ (1,590,602)	\$9,511,923

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

	Principal	Interest	Total
2023	\$ 1,059,354	\$ 92,857	\$ 1,152,211
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
2028-2032	3,859,163	180,989	4,040,152
2033-2037	1,073,594	33,042	1,106,636
TOTAL	\$ 9,511,923	\$590,455	\$ 10,102,378

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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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.

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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/22	Amount Issued in 2022	Amount Redeemed in 2022	Ending Outstanding Debt 12/31/22
City of Tacoma SSP Repayment Agreement	Capital Improvements / \$17,822,335	2002	2032	4%-5%	\$12,143,333	\$ ---	\$(381,666)	\$11,761,667
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%	1,781,784	---	(137,058)	1,644,726
	TOTALS				\$17,440,117	\$ ---	\$(518,724)	\$16,921,393

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

	Principal	Interest	Total
2023	\$ 590,811	\$ 703,309	\$ 1,294,120
2024	1,186,645	673,587	1,860,232
2025	1,241,227	619,052	1,860,279
2026	1,292,060	561,787	1,853,847
2027	1,351,644	501,981	1,853,625
2028-2032	7,469,884	1,551,641	9,021,525
2033-2037	2,349,122	502,150	2,851,272
2038-2042	1,440,000	106,318	1,546,318
TOTAL	\$16,921,393	\$5,219,825	\$22,141,218

The annual debt service requirements to maturity on all debts outstanding as of December 31, 2022 including interest are as follows:

Year	Principal	Interest	Total
2023	\$ 1,960,165	\$ 920,576	\$ 2,880,741
2024	2,381,598	869,503	3,251,101
2025	2,451,180	794,359	3,245,539
2026	2,512,013	717,684	3,229,697
2027	2,586,597	639,743	3,226,340
2028-2032	13,259,047	1,955,135	15,214,182
2033-2037	3,847,716	541,990	4,389,706
2038-2042	1,440,000	106,318	1,546,318
TOTALS	\$ 30,438,316	\$6,545,308	\$36,983,624

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

Changes in Long-Term Liabilities

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

ID No.	Description	Beginning Balance 1/1/22	Additions	Reductions	Ending Balance 12/31/22	Due within one year
252.11	Water Revenue Bonds	\$ 4,305,000	\$ ---	\$ (300,000)	\$ 4,005,000	\$ 310,000
259.12	Compensated Absences	386,542	41,292	---	427,834	315,873
263.82	PWTF/DWSRF Loans	11,102,525	---	(1,590,602)	9,511,923	1,059,354
263.82	SSP Repayment Agreements	17,440,117	---	(518,724)	16,921,393	590,811
264.30	Pension Liabilities	279,577	297,845	---	577,422	---
264.40	OPEB Liabilities	1,448,315	---	(280,218)	1,168,097	12,569
	TOTALS	\$34,962,076	\$ 339,137	\$(2,689,544)	\$32,611,669	\$ 2,288,607

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 as of December 31:

	12/31/22
Debt service	\$1,061,415
Pensions	1,008,306
Rate stabilization	2,004,916
TOTAL	\$ 4,074,637

NOTE 7 PENSIONS-STATE SPONSORED (DRS) PLANS

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (577,422)
Pension assets	1,005,821
Deferred outflows of resources	1,022,636
Deferred inflows of resources	(1,050,748)
Pension expense/expenditures	(125,033)

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.

COVINGTON WATER DISTRICT
 Notes to the Financial Statements
 For the year ended December 31, 2022

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

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

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 2022 were as follows:

Actual Contribution Rates	Employer	Employee*
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	10.25%	6.00%
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
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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.

Contributions

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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

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

The District's actual PERS plan contributions were \$125,191 to PERS Plan 1 and \$212,214 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

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

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

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for 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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

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, 2022. 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.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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	\$ 771,428	\$ 577,422	\$ 408,100
PERS 2/3	1,184,486	(1,005,821)	(2,805,298)

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, 2022, the District reported its proportionate share as follows:

	Liability (or Asset)
PERS 1	\$ 577,422
PERS 2/3	(1,005,821)

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	.022893%	.020738%	(.002155%)
PERS 2/3	.029395%	.027120%	(.002275%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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, 2022, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 211,493
PERS 2/3	(336,526)
TOTAL	\$ (125,033)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, 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	---	(95,696)
Changes of assumptions	---	---
Changes in proportion and differences between contributions and proportionate share of contributions	---	---
Contributions subsequent to the measurement date	65,099	---
TOTAL	\$65,099	(\$95,696)

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 249,219	\$ (22,769)
Net difference between projected and actual investment earnings on pension plan investments	---	(743,611)
Changes of assumptions	560,607	(146,787)
Changes in proportion and differences between contributions and proportionate share of contributions	38,514	(41,885)
Contributions subsequent to the measurement date	109,197	---
TOTAL	\$ 957,537	\$ (955,052)

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
2023	\$ (40,496)
2024	(36,781)
2025	(46,141)
2026	27,723
2027	---
Thereafter	---

Year ended December 31:	PERS 2/3
2023	\$ (236,260)
2024	(206,377)
2025	(250,799)
2026	341,053
2027	123,712
Thereafter	121,959

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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 \$20,500. In addition, participants may be eligible for a catch-up contribution which would increase the maximum to \$27,000. The District employees' total deferred compensation plan contribution for the year 2022 was \$241,613. Total employees' actual deferred contribution since joining the plan is \$1,981,359.

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 70 members. The Pool's fiscal year is November 1st through October 31st.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

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, 2022, written notice must be in possession of the Pool by April 30, 2022). 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 2022:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$ 1,168,097
Deferred outflows of resources	\$ 6,284
OPEB expenses/expenditures	\$ (269,407)

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

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

District had 37 active plan members and 2 retired plan member as of December 31, 2022. The District payments were \$10,811 to the plan for the year ended December 31, 2022.

Assumptions and Other Inputs

The District's total OPEB liability was measured as of June 30, 2022 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	6/30/2022
Actuarial Measurement Date	6/30/2022
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions	
Discount Rate	
Beginning of Measurement Year	2.16%
End of Measurement Year	3.54%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates	Initial rate ranges from about 2-11%, reaching an ultimate rate of approximately 4.3% 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	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

The source of the discount rate is the Bond Buyer General Obligation 20-Bond Municipal Index. 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>

The following presents the total OPEB liability of the district calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) than the current rate.

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$943,656	\$1,168,097	\$1,465,673

The following presents the total OPEB liability of the district calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$1,416,826	\$1,168,097	\$972,956

Changes in the Total OPEB Liability

PEBB	
Total OPEB Liability at 01/01/2022	\$ 1,448,315
Service cost	96,153
Interest	33,244
Changes in Experience Data & Assumptions	(398,804)
Changes of benefit terms	---
Benefit payments	(10,811)
Other changes	---
Total OPEB Liability at 12/31/2022	\$ 1,168,097

The District recognized OPEB expense for the years ended December 31, 2022 as follows:

Service Cost	\$96,153
Interest Cost	33,244
Changes in Experience Data & Assumptions	(398,804)
Total OPEB Expense	\$(269,407)

At December 31, 2022, 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	6,284	---
TOTAL	\$ 6,284	\$ ---

COVINGTON WATER DISTRICT
Notes to the Financial Statements
For the year ended December 31, 2022

Deferred outflows of resources of \$6,284 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, 2023.

NOTE 12 SUBSEQUENT EVENTS

On April 18, 2023 the Board of Commissioners approved resolution no. 4607, approving the early redemption of the District's 2013 issued Water Revenue Bonds (see footnote 5.) The notice of redemption was made on May 11, 2023, for a redemption date of June 30, 2023, at a price of 100% of the remaining principal amount plus interest accrued to June 30, 2023. The total principal amount to be called is \$3,695,000, plus a total intra-period interest amount of \$39,587.

On May 23, 2023 the Board of Commissioners approved resolution no. 4612, 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 effective on or before September 7, 2023 in the amount of \$11,940,840 plus any administrative fees and/or expenses. As of the date of the financial statements, the RWSS partnership has not voted or published a notice of redemption/refunding.

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2022
Last 10 Fiscal Years*

		Public Employees' Retirement System Plan 1							
		2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	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	\$	577,422	279,577	785,475	898,506	1,085,470	1,128,427	1,334,455	1,420,721
Covered payroll	\$	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	%	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	%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%
		Public Employees' Retirement System Plan 2/3							
		2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	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)	\$	-1,005,821	-2,928,215	370,689	293,044	531,910	1,061,605	1,598,084	1,191,007
Covered payroll	\$	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	%	-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	%	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							
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 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	\$ (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
Covered payroll	\$ 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	%	3.75%	4.32%	4.80%	4.93%	5.07%	4.91%	4.78%
	4.40%							
	Public Employees' Retirement System Plan 2/3							
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 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	\$ (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
Covered payroll	\$ 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%	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				
	2022	2021	2020	2019	2018
Total OPEB liability - beginning	\$ 1,448,315	\$ 1,676,333	\$ 1,213,541	\$ 1,186,689	\$ 1,131,025
Service cost	96,153	122,091	74,928	78,627	95,966
Interest	33,244	39,684	45,022	48,876	43,888
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-
Changes of assumptions	(398,804)	(384,269)	347,104	(95,872)	(82,034)
Benefit payments	(10,811)	(5,524)	(4,262)	(4,779)	(2,156)
Other changes	-	-	-	-	-
Total OPEB liability - ending	1,168,097	1,448,315	1,676,333	1,213,541	1,186,689
Covered-employee payroll**	3,871,134	3,563,250	3,579,835	3,453,740	3,229,225
Total OPEB liability as a % of covered payroll	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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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