

**LAKE STEVENS SEWER DISTRICT**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2022**



CPAs | CONSULTANTS | WEALTH ADVISORS

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**LAKE STEVENS SEWER DISTRICT  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2022**

<b>INDEPENDENT ACCOUNTANTS' REVIEW REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>10</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN     FUND NET POSITION</b>	<b>12</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>13</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>15</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF PROPORTIONATE SHARE OF THE NET     PENSION LIABILITY/(ASSET)</b>	<b>37</b>
<b>SCHEDULES OF EMPLOYER CONTRIBUTIONS</b>	<b>38</b>



## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Commissioners  
Lake Stevens Sewer District  
Lake Stevens, Washington

We have reviewed the accompanying financial statements of Lake Stevens Sewer District (the District), which comprise the statement of net position as of December 31, 2022, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of District management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### ***Management's Responsibility for the Financial Statements***

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

### ***Accountants' Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Lake Stevens Sewer District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### ***Accountants' Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a required 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. Such information is the responsibility of management. We have not audited, reviewed, or compiled the management's discussion and analysis and required supplementary information and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Bellevue, Washington  
May 3, 2023

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**INTRODUCTION**

Lake Stevens Sewer District was formed in 1957 for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which include the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens.

Our mission is meeting the challenge of protecting the environment and providing quality sewer service to the community.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

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

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**Overview of the Financial Statements (Continued)**

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

	2022	*
	<u>2022</u>	<u>2021</u>
Capital Assets	\$ 158,425,381	\$ 161,371,326
Other Assets	31,139,720	29,889,652
Total Assets	<u>189,565,101</u>	<u>191,260,978</u>
Deferred Outflows of Resources	<u>1,671,025</u>	<u>1,317,818</u>
Long-Term Liabilities	53,678,090	59,329,180
Other Liabilities	7,764,757	7,987,207
Total Liabilities	<u>61,442,847</u>	<u>67,316,387</u>
Deferred Inflows of Resources	<u>750,826</u>	<u>2,307,561</u>
Net Investment in Capital Assets	100,713,385	97,727,372
Restricted Amounts	5,291,170	7,927,647
Unrestricted Amounts	<u>23,037,898</u>	<u>17,299,829</u>
Total Net Position	<u><u>\$ 129,042,453</u></u>	<u><u>\$ 122,954,848</u></u>

\* The 2021 financial statements have not been restated to reflect the change in accounting for leases.

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**Overview of the Financial Statements (Continued)**

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

	2022	*
	<u>2022</u>	<u>2021</u>
Utility Operating Revenue	\$ 16,893,764	\$ 15,012,527
Total Operating Revenues	<u>16,893,764</u>	<u>15,012,527</u>
Operating Expenses	7,189,830	6,946,357
Depreciation	6,856,969	6,744,309
Total Operating Expenses	<u>14,046,799</u>	<u>13,690,666</u>
Operating Income	2,846,965	1,321,861
Nonoperating Revenue (Expense):		
Interest	145,543	84,298
Rental Income	36,483	34,748
Interest and Amortization	(1,426,399)	(1,570,410)
Gain (Loss) on Disposal of Assets	(52,579)	(25,469)
Income (Loss) Before Capital Contributions	<u>1,550,013</u>	<u>(154,972)</u>
Capital Contributions	<u>4,537,592</u>	<u>11,424,486</u>
Increase in Net Position	6,087,605	11,269,514
Net Position, January 1, as Previously Reported	122,954,848	111,685,334
Restatement - Change in Accounting Principle	-	-
Prior Period Adjustments	-	-
Net Position - January 1	<u>122,954,848</u>	<u>111,685,334</u>
Net Position - December 31	<u><u>\$ 129,042,453</u></u>	<u><u>\$ 122,954,848</u></u>

\* The 2021 financial statements have not been restated to reflect the change in accounting for leases.

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

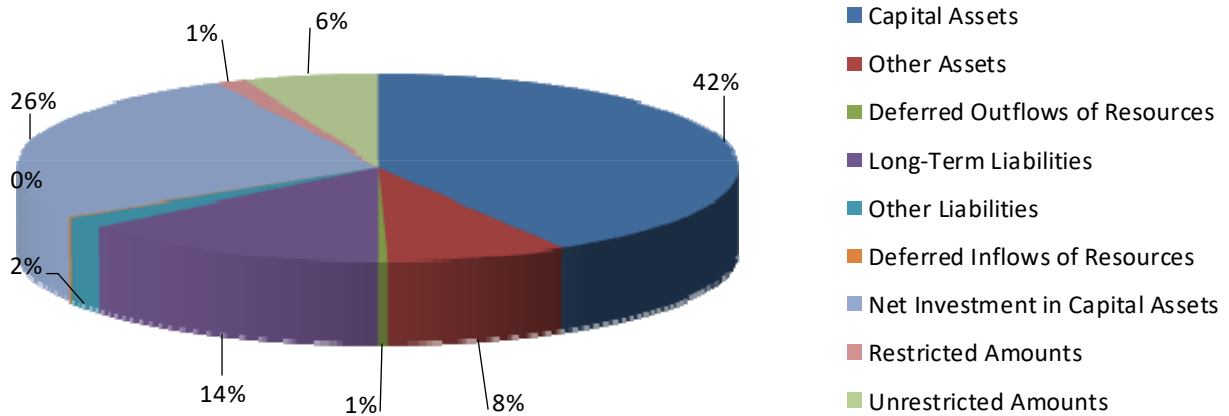
**FINANCIAL POSITION**

The District's overall financial position improved in 2022 due to profitable operations and substantial developer contributions.

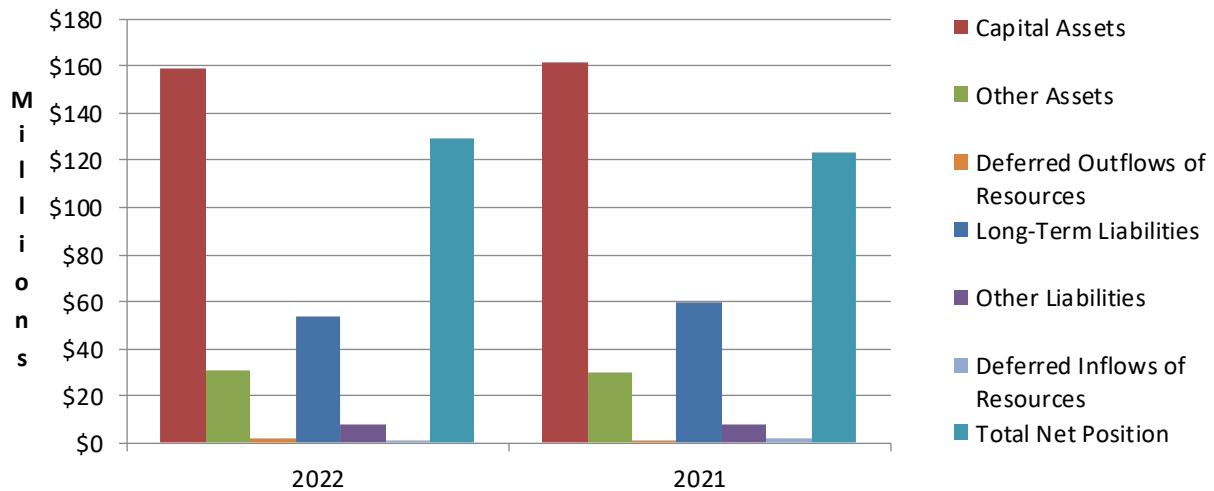
The District is financed by long-term debt and substantial equity. Sufficient liquid assets are available to fund liabilities and construction. Capital assets decreased in 2022 due to depreciation exceeding construction activity and donated systems. Investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

The following charts indicate the components of financial position:

**2022 Statement of Net Position**



**Comparative Statement of Net Position**



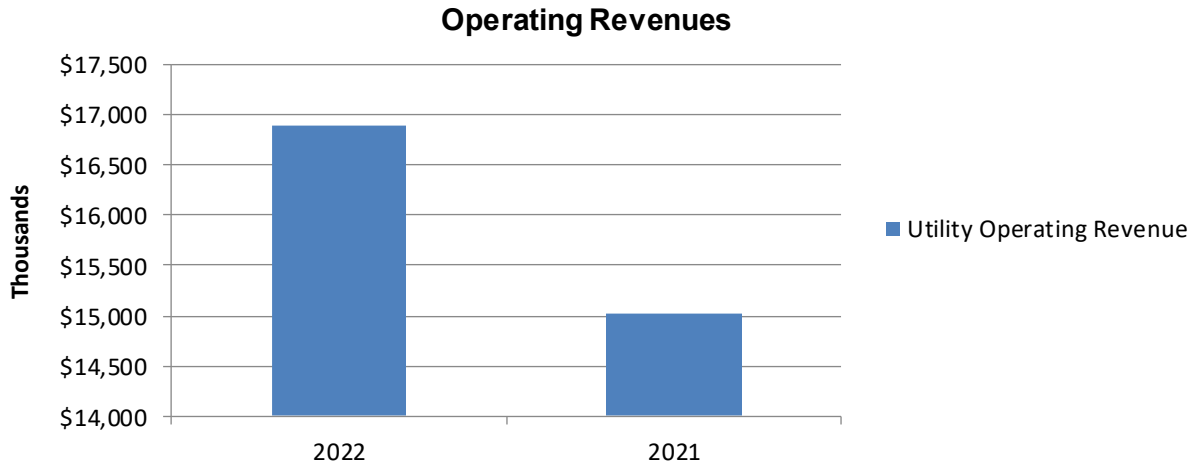


**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**RESULTS OF OPERATIONS**

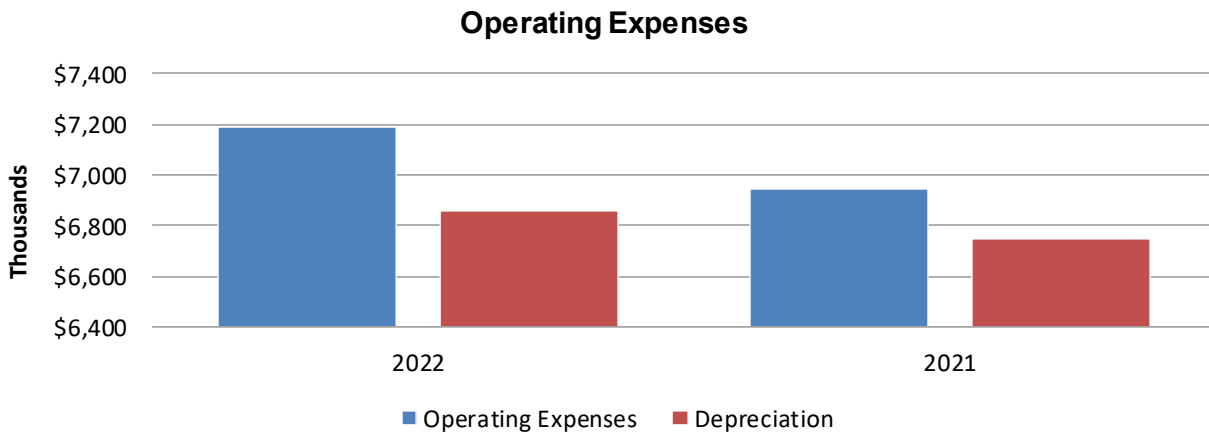
Operating revenues are received from providing sewer services.

The following chart indicates operating revenue over the last two years:



Operating revenue increased in 2022 due to a rate increase and increases in the number of customers. The residential growth of the District has been steady since 2017 when there was a change in city planning for future infrastructure and developers laid the groundwork for future growth.

The following chart indicates operating expenses over the last two years:



Operating expenses increased in 2022 primarily due to increases in personnel costs.

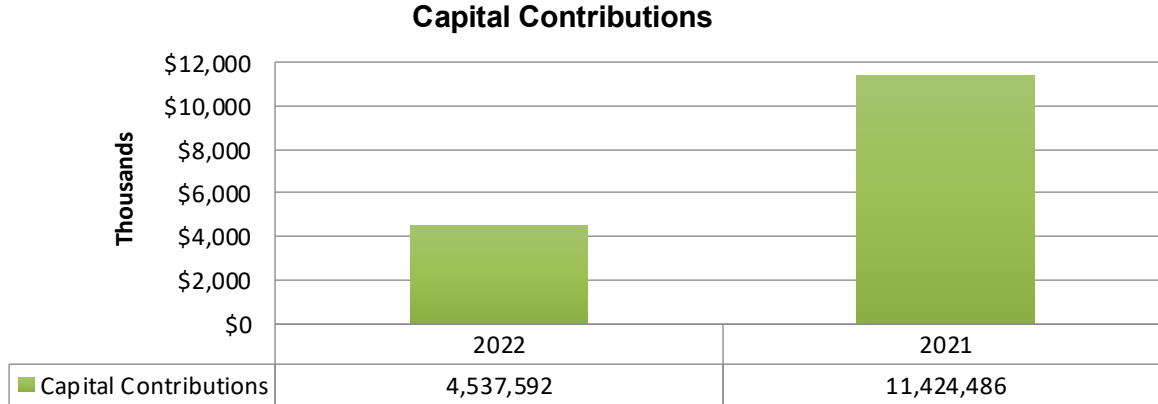
The District operated at a profit in 2022 and 2021. Operating results are augmented by earnings on investments, capital contributions, and other nonoperating revenues, less nonoperating expenses.

The District collects capital contributions from new customers. These contributions consist of connection charges, grants, ULID assessments and donated systems.

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**RESULTS OF OPERATIONS (CONTINUED)**

The following chart indicates capital contributions over the last two years:



These contributions are indicative of the growth of the District. They include donated systems totaling \$3,116,152 and \$5,098,500 for the years ended December 31, 2022 and 2021, respectively.

**CAPITAL ASSETS AND LONG-TERM LIABILITIES**

Capital assets decreased in 2022 due to depreciation exceeding construction activity and donated systems. Investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

Significant capital asset additions during the years included the following:

<b>2022</b>	
24th St & SR9 Sewer Crossing	\$ 174,350
LS 2C Design & CM	89,520
17th PI NE	63,703
Ammonia & Nitrate Probes	85,017
Permeate Piping	63,490
LS7 Generator Replacement	57,962
Vehicles	192,149
Donated Systems	3,116,152

**LAKE STEVENS SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

The decrease in long-term liabilities in 2022 was due to principal payments made by the District on long-term debt.

See Notes 5, 6, 7, and 8 in the financial statements for detail activity in capital assets and long-term debt.

**ADDITIONAL COMMENTS**

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23<sup>rd</sup> day of May 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate, and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City. See Note 11 for additional information.

**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2022**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CURRENT ASSETS**

Unrestricted:

Cash and Cash Equivalents	\$ 24,044,927
Accounts Receivable	1,712,591
Interest Receivable	7,072
Lease receivable, Current Portion	32,693
Prepayments	51,267
Total Unrestricted Assets	25,848,550

Restricted:

Cash and Cash Equivalents	4,556,752
Interest Receivable	8,516
Assessments Receivable	15,798
Total Restricted Assets	4,581,066

Total Current Assets	30,429,616
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**NONCURRENT ASSETS**

Restricted:

Net Pension Asset	710,104
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Capital Assets Not Being Depreciated:

Land, Land Rights, and Other	1,052,474
Construction in Progress	1,026,386

Capital Assets Being Depreciated:

Plant in Service	239,793,395
Less: Accumulated Depreciation	(83,446,874)
Net Capital Assets	158,425,381

Total Noncurrent Assets	159,135,485
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Total Assets	189,565,101
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding of Debt	870,133
Deferred Outflows Related to Pensions	800,892
Total Deferred Outflows of Resources	1,671,025

Total Assets and Deferred Outflows of Resources	\$ 191,236,126
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**LAKE STEVENS SEWER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**LIABILITIES AND DEFERRED INFLOWS OF RESOURCES**

**CURRENT LIABILITIES**

Payable from Unrestricted Assets:	
Accounts Payable	\$ 244,963
Utility Revenue Billed in Advance	1,502,862
Compensated Absences	239,000
Developer Deposits	124,476
Accrued Interest	249,046
Long-Term Debt - Current Maturities	5,404,410
Total Current Liabilities	<u>7,764,757</u>

**NONCURRENT LIABILITIES**

Long-Term Debt, Net of Current Maturities	53,109,962
Compensated Absences	160,205
Net Pension Liability	407,923
Total Noncurrent Liabilities	<u>53,678,090</u>

Total Liabilities	61,442,847
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Lease	31,809
Deferred Inflows Related to Pensions	719,017
Total Deferred Inflows of Resources	<u>750,826</u>

Total Liabilities and Deferred Inflows of Resources	62,193,673
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**NET POSITION**

Net Investment in Capital Assets	100,713,385
Restricted for Debt Service	4,581,066
Restricted for Pensions	710,104
Unrestricted	23,037,898
Total Net Position	<u>129,042,453</u>

Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 191,236,126</u>
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**LAKE STEVENS SEWER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED DECEMBER 31, 2022**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

<b>OPERATING REVENUES</b>	
Utility Revenue	\$ 16,893,764
Total Operating Revenues	<u>16,893,764</u>
<b>OPERATING EXPENSES</b>	
General Operations	5,567,724
Maintenance	953,411
Taxes	668,695
Depreciation	6,856,969
Total Operating Expenses	<u>14,046,799</u>
<b>OPERATING INCOME</b>	2,846,965
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Investment Income	144,967
Rental Income	36,483
Assessment Interest	576
Interest on Long-Term Debt	(1,426,399)
Loss on Disposal of Assets	(52,579)
Total Nonoperating Revenue (Expense)	<u>(1,296,952)</u>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	1,550,013
Capital Contributions	<u>4,537,592</u>
<b>CHANGE IN NET POSITION</b>	6,087,605
Net Position - Beginning of Year	<u>122,954,848</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 129,042,453</u></u>

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers and Other	\$ 16,981,400
Cash Paid to Vendors	(3,697,086)
Cash Paid to and for Employees and Commissioners	(4,065,258)
Net Cash Provided by Operating Activities	9,219,056

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Capital Contributions	1,421,440
Expenditures for Plant in Service and Construction	(918,733)
Proceeds from Disposal of Assets	42,270
Lease Payments Received	35,599
Collections on ULID Assessments	721
Interest Received on Assessments	85
Principal Paid on Long-Term Debt	(5,702,909)
Interest Paid on Long-Term Debt	(1,677,198)
Net Cash Used by Capital Financing Activities	(6,798,725)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received on Investments	182,671
Net Cash Provided by Investing Activities	182,671

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

2,603,002

Cash and Cash Equivalents - Beginning of Year

25,998,677

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 28,601,679

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents - Current Assets	\$ 24,044,927
Cash and Cash Equivalents - Restricted Current Assets	4,556,752
Total Cash and Cash Equivalents	\$ 28,601,679

See accompanying Notes to Financial Statements.

**LAKE STEVENS SEWER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 2,846,965
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:	
Depreciation	6,856,969
(Increase) Decrease in Assets and Deferred	
Outflows of Resources:	
Accounts Receivable	(167,033)
Prepayments	(17,291)
Net Pension Asset	1,532,017
Deferred Outflows Related to Pensions	(513,631)
Increase (Decrease) in Liabilities and Deferred	
Inflows of Resources:	
Accounts Payable	(150,226)
Utility Revenue Billed in Advance	254,669
Developer Deposits	21,817
Compensated Absences	(50,736)
Net Pension Liability	194,080
Deferred Inflows Related to Pensions	<u>(1,588,544)</u>
Net Cash Provided by Operating Activities	<u>\$ 9,219,056</u>

**SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT  
NONCASH FINANCING AND INVESTING ACTIVITIES**

Utility Plant Donations Received	<u>\$ 3,116,152</u>
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**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Lake Stevens Sewer District (the District), a municipal corporation organized under the laws of the state of Washington, was formed in 1957 for the purpose of constructing, maintaining and operating a sewer system within its boundaries, which include the unincorporated area around Lake Stevens, WA and for the City of Lake Stevens. The District is governed by an elected three member board and has no component units.

**Basis of Presentation and Accounting**

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

**Adoption of New Accounting Standards:**

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets for leases that previously were classified as operating leases and as inflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The District adopted the requirements of the guidance effective January 1, 2022, and has applied the provisions of this standard to the beginning of the period of adoption.

**Cash and Cash Equivalents**

It is the District's policy to invest all temporary cash surpluses in the state of Washington Treasurer's Local Government Investment Pool (LGIP) and all long-term reserves in the Snohomish County Investment Pool (SCIP).

For purposes of the statement of cash flows, due to the liquidity and short-term investment policies, the State and County Investment Pools are considered cash equivalents.

**Investments**

Investments in the state of Washington Treasurer's Local Government Investment Pool (LGIP) are stated at share price that is equal to amortized cost.

Investments in the Snohomish County Investment Pool (SCIP) are stated at fair value. The fair value of the District's investment is determined by calculating the ratio of total investment by pool participants divided into the total fair value of all SCIP underlying assets. The District determines their fair value by taking their investment in the SCIP times this ratio.

**Accounts Receivable**

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Lease Receivable**

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

**Capital Assets**

Capital assets are stated at cost and include the capitalized portion of District employees' wages and related overhead costs. For sewer systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's estimated cost. Expenditures for capital assets exceeding \$5,000, including leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant in Service	5 - 50 Years
Buildings	20 - 50 Years
Machinery and Equipment	5 - 20 Years

**Pensions**

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

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability or as an addition to the net pension asset in the following year. Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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

**Compensated Absences**

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

**Long-Term Debt**

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position**

Net position is classified in the following three components:

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

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

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

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

**Revenues and Expenses**

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

**Capital Contributions**

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

**Use of Estimates in Financial Statement Preparation**

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Deposits**

Cash on hand at December 31, 2022 was \$1,500. The District's bank balances as of December 31, 2022 was \$1,369,038.

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

**Investments**

In accordance with state law, all investments of the District's funds are obligations of the U.S. Government, U.S. Government Agency issues, certificates of deposit with Washington State Banks, the Washington State Local Investment Pool (LGIP), or the Snohomish County Investment Pool (SCIP).

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

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

	2022
Local Government Investment Pool	\$ 20,525,972
Snohomish County Investment Pool	6,705,169
Total Investments	\$ 27,231,141

**Investments Measured at Amortized Cost**

	2022
Local Government Investment Pool	\$ 20,525,972

The District is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the Securities Exchange Commission. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

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

**Investments Measured at Fair Value**

	2022
Snohomish County Investment Pool	<u>\$ 6,705,169</u>

**Snohomish County Investment Pool**

The District is a participant in the Snohomish County Investment Pool (SCIP). The pool is not rated and not registered with the Securities Exchange Commission. Investments are reported at fair value to participants. It includes participating funds from the County's primary government funds from the Districts where the County Treasurer serves as ex-officio treasurer and cities where the County Treasurer is the property tax collector. There are no involuntary participants in the SCIP. All participants have notified the Treasurer of their desire to participate in the SCIP. The portion of the Pool belonging to outside districts is reported in an Investment Trust Fund. SCIP investments are those allowed by County Investment Policy and include savings accounts, certificates of deposit, and securities. Pool participants' shares are based on the dollars that they have invested in the SCIP. The income is distributed based on interest rates on investments, amortization of premiums and discounts, and realized gains and losses for the month. Pool oversight comes from the Snohomish County Finance Committee (SCFC). The SCFC consists of the County Treasurer, County Executive, and Chairman of the County Council. SCFC approves investment policies for SCIP. The SCIP does not impose any restrictions on participant withdrawals.

**Interest Rate Risk**

The Snohomish County Investment Pool's effective duration was 1.62 years as of December 31, 2022.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 3 RESTRICTED ASSETS**

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

	Debt Service	Debt Service Reserve Account	PERS 2/3	Total
Current Restricted Assets:				
Cash and Cash Equivalents	\$ 1,496,181	\$ 3,060,570	\$ -	\$ 4,556,751
Interest Receivable	8,516	-	-	8,516
Assessments Receivable	15,798	-	-	15,798
Total	<u>1,520,495</u>	<u>3,060,570</u>	<u>-</u>	<u>4,581,065</u>
Noncurrent Restricted Assets:				
Net Pension Asset	-	-	710,104	710,104
Total	<u>\$ 1,520,495</u>	<u>\$ 3,060,570</u>	<u>\$ 710,104</u>	<u>\$ 5,291,169</u>

**NOTE 4 LEASE RECEIVABLE**

The District is a lessor of certain space in one of the District's facilities. The District records a lease receivable and deferred inflows of resources based on the present value of expected receipts over the term of the lease. The expected receipts are discounted using an interest rate based on the 10-year treasury bond plus 2%. The District recognized lease revenue of \$31,810 and \$1,740 of interest income during the year ended December 31, 2022.

Future lease payments to be received under the lease are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 32,693	\$ 626	\$ 33,319

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 5 CONSTRUCTION IN PROGRESS**

Construction in progress is composed of the following at December 31, 2022:

Project Name	Project Authorization	Expended 12/31/22	Committed	Required Future Financing
24th St & SR9 Sewer Crossing	\$ 457,911	\$ 265,508	\$ 192,403	None
LS 1C Electrical Update	38,310	1,356	36,954	None
LS 1C Design & CM	176,530	21,405	155,125	None
LS 2C Design & CM	415,580	189,331	226,249	None
LS 2C Force Main & CM	345,030	116,095	228,935	None
Main & 18th St Improvements/20th St NE Business Loop Design & CM	143,860	104,456	39,404	None
Ammonia & Nitrate Probes	92,732	85,017	7,715	None
LS 4C & 6C Predesign	30,000	28,905	1,095	None
LS 4C & 6C Construction 5C Decommissioning	343,000	53,830	289,170	None
SR204 SR9 Intersection	63,412	63,412	-	None
City of Lake Stevens Downtown Plan - Pre Design of LS 2C	40,000	26,973	13,027	None
VBC Second Floor Building Improvements	99,100	12,135	86,965	None
LS7 Generator Replacement	114,555	57,962	56,593	None
Total	<u>\$ 2,360,020</u>	<u>\$ 1,026,386</u>	<u>\$ 1,333,634</u>	



**LAKE STEVENS SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

**NOTE 6 CAPITAL ASSETS**

Major classes of capital assets and capital asset activity were as follows for 2022:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Capital Assets Not Being Depreciated:				
Land	\$ 1,052,474	\$ -	\$ -	\$ 1,052,474
Construction in Progress	1,044,706	847,157	(865,477)	1,026,386
Total	<u>2,097,180</u>	<u>847,157</u>	<u>(865,477)</u>	<u>2,078,860</u>
Capital Assets Being Depreciated:				
Plant in Service	203,540,109	3,806,665	(478,039)	206,868,735
Buildings	1,672,544	-	-	1,672,544
Machinery, Equipment, and Furniture	31,090,610	251,782	(90,276)	31,252,116
Total	<u>236,303,263</u>	<u>4,058,447</u>	<u>(568,315)</u>	<u>239,793,395</u>
Accumulated Depreciation:				
Plant in Service	(58,263,028)	(4,716,669)	369,947	(62,609,750)
Buildings	(362,417)	(37,292)	-	(399,709)
Machinery, Equipment, and Furniture	(18,403,672)	(2,145,634)	111,891	(20,437,415)
Total	<u>(77,029,117)</u>	<u>(6,899,595)</u>	<u>481,838</u>	<u>(83,446,874)</u>
Net Capital Assets	<u>\$ 161,371,326</u>	<u>\$ (1,993,991)</u>	<u>\$ (951,954)</u>	<u>\$ 158,425,381</u>

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 7 LONG-TERM DEBT**

Long-term debt outstanding at December 31, consisted of revenue bonds and direct borrowings and direct placements as follows:

Description	2022
Revenue Bonds:	
\$19,725,000 for refunding due serially through the year 2032, with interest payable semi-annually at 4.00 to 5.00 annual percentage rates	\$ 16,215,000
Total General Obligation and Revenue Bonds	16,215,000
Direct Borrowings and Direct Placements:	
All issued for utility construction and secured by the revenue of the system.	
Public Works Trust Fund Loans:	
\$1,000,000 loan, payable \$52,632 annually through the year 2025, plus interest at 2.0 annual percentage rate	157,895
\$1,000,000 loan, payable \$52,632 annually through the year 2025, plus interest at .5 annual percentage rate	157,895
\$1,000,000 loan, payable \$53,363 annually through the year 2025, plus interest at .5 annual percentage rate	160,088
\$1,000,000 loan, payable \$52,632 annually through the year 2028, plus interest at .5 annual percentage rate	315,789
\$7,000,000 loan, payable \$409,539 annually through the year 2026, plus interest at .5 annual percentage rate	1,638,158
\$7,000,000 loan, payable \$395,005 annually through the year 2027, plus interest at .5 annual percentage rate	1,975,026
\$10,000,000 loan, payable \$301,734 annually through the year 2038, plus interest at .5 annual percentage rate	4,827,751
\$10,000,000 loan, payable \$301,734 annually through the year 2038, plus interest at .5 annual percentage rate	4,827,751

**LAKE STEVENS SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Description	2022
State Revolving Fund Loans:	
\$15,800,510 loan: Payable \$538,314 semi-annually through December 2030, including interest at 3.1 annual percentage rate.	\$ 7,555,951
\$28,174,634 loan: Payable \$926,933 semi-annually through May 2032, including interest at 2.7 annual percentage rate.	15,431,997
\$4,113,465 loan: Payable \$135,201 semi-annually through August 2036, including interest at 2.7 annual percentage rate.	3,131,805
Total Direct Borrowings and Direct Placements	40,180,106
Total Long-Term Debt	56,395,106
Less: Current Maturities	(5,404,410)
Add: Unamortized Bond (Discounts) Premiums	2,119,266
Total	\$ 53,109,962

In the event of default, the Washington State Department of Ecology may at its sole discretion declare the principal and interest on the State Revolving Fund loan in default immediately due and payable.

Long-term debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	General Obligation and Revenue Bonds		Direct Placements and Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2023	\$ 1,305,000	\$ 737,050	\$ 4,099,410	\$ 791,060	\$ 6,932,520
2024	1,365,000	671,800	4,170,522	711,851	6,919,173
2025	1,435,000	603,550	4,243,682	630,595	6,912,827
2026	1,505,000	531,800	4,160,323	547,232	6,744,355
2027	1,580,000	456,550	3,828,218	462,494	6,327,262
2028-2032	9,025,000	1,128,550	15,038,724	1,065,341	26,257,615
2033-2037	-	-	4,035,759	123,544	4,159,303
2038	-	-	603,468	3,017	606,485
Total	\$ 16,215,000	\$ 4,129,300	\$ 40,180,106	\$ 4,335,134	\$ 64,859,540

**LAKE STEVENS SEWER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

**NOTE 8 CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
<u>2022</u>					
Direct Borrowings and Direct Placements:					
Public Works Trust					
Fund Loans	\$ 15,982,243	\$ -	\$ (1,921,890)	\$ 14,060,353	\$ 1,619,271
State Revolving Fund Loans	28,530,771	-	(2,411,016)	26,119,755	2,480,139
General Obligation Bonds	130,000	-	(130,000)	-	-
Revenue Bonds	17,455,000	-	(1,240,000)	16,215,000	1,305,000
Bond Premiums	2,508,740	-	(389,474)	2,119,266	-
Compensated Absences	449,941	188,669	(239,405)	399,205	239,000
Net Pension Liability PERS 1	213,843	194,080	-	407,923	-
Total	<u>\$ 65,270,538</u>	<u>\$ 382,749</u>	<u>\$ (6,331,785)</u>	<u>\$ 59,321,502</u>	<u>\$ 5,643,410</u>

**NOTE 9 PENSION PLANS**

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2022:

	<u>2022</u>
Pension Liabilities	\$ 407,923
Pension Assets	(710,104)
Deferred Outflows of Resources	800,892
Deferred Inflows of Resources	719,017
Pension Expense	(100,179)

**State Sponsored Pension Plans**

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Public Employees Retirement System (PERS)**

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 obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98540-8380

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

**Public Employees Retirement System (PERS)**

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

**PERS Plan 1** – provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of 5 years of eligible service. The plan was closed to new entrants on September 30, 1977.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

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

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

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

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

The District's actual contributions to the plan were \$102,294 for the year ended December 31, 2022.

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

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

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

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

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

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

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

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

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

The District's actual contributions to the plan were \$173,604 for the year ended December 31, 2022.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Actuarial Assumptions**

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

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities/(assets) 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%

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

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

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



**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7%.

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% was used to determine the total liability/(asset).

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation. As of June 30, 2022:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Percent Long-Term Expected Real Rate of Return Arithmetic</u>
<u>2022</u>		
Fixed Income	20 %	1.50 %
Tangible Assets	7	4.70
Real Estate	18	5.40
Global Equity	32	5.90
Private Equity	23	8.90
Total	<u>100 %</u>	

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Sensitivity of NPL/(Asset)**

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
<u>2022</u>			
PERS 1	\$ 544,980	\$ 407,923	\$ 288,305
PERS 2/3	836,240	(710,104)	(1,980,522)

**Pension Plan Fiduciary Net Position**

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

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

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

	<u>Liability (Asset)</u> 2022
PERS 1	\$ 407,923
PERS 2/3	(710,104)
Total	<u>\$ (302,181)</u>

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

	<u>Proportionate Share 6/30/21</u>	<u>Proportionate Share 6/30/22</u>	<u>Change in Proportion</u>
PERS 1	0.017510%	0.014650%	-0.002860%
PERS 2/3	0.022508%	0.019147%	-0.003361%

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

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

**Pension Expense**

For the year ended December 31, 2022, the District recognized pension expense as follows:

	2022
PERS 1	\$ 114,177
PERS 2/3	(214,356)
Total	\$ (100,179)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>2022</u>		
PERS 1:		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	67,605
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	53,239	-
Total PERS 1	53,239	67,605
PERS 2/3:		
Differences Between Expected and Actual Experience	175,947	16,075
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	524,985
Changes of Assumptions	395,785	103,631
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	86,412	6,721
Contributions Subsequent to the Measurement Date	89,509	-
Total PERS 2/3	747,653	651,412
Total All Plans	\$ 800,892	\$ 719,017

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 9 PENSION PLANS (CONTINUED)**

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

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

<u>Year Ending December 31</u>	<u>PERS 1</u>	<u>PERS 2/3</u>
2023	\$ (28,609)	\$ (142,761)
2024	(25,984)	(130,339)
2025	(32,597)	(161,224)
2026	19,585	254,672
2027	-	97,030
Thereafter	-	89,354
Total	<u>\$ (67,605)</u>	<u>\$ 6,732</u>

**NOTE 10 RISK MANAGEMENT**

The District is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security and privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members with a \$2 million incident limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 10 RISK MANAGEMENT (CONTINUED)**

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years (2022, 2021, and 2020), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**NOTE 11 CITY OF LAKE STEVENS AGREEMENT**

The City of Lake Stevens and the Lake Stevens Sewer District entered into a Unified Sewer Services and Annexation Agreement on the 23<sup>rd</sup> day of May 2005 that was subsequently implemented January 1, 2006. This agreement called for a transfer of the City System to the District after which the District shall own, operate and maintain the entire wastewater collection conveyance, treatment and discharge system in the UGA (the Urban Growth Area). The agreement also provides for the ultimate transfer of the Unified Sewer System from the District to the City in 2033.

**LAKE STEVENS SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**NOTE 11 CITY OF LAKE STEVENS AGREEMENT (CONTINUED)**

As part of this agreement, the District agreed to transfer to the City all funds necessary for the Public Work Trust Fund Loan No. PW-02-691-029 and the City Sewer utility's share of the 1997 General Obligation Bonds. The City has refunded these bonds with the City 2008 GO Bonds.

The agreement also calls for certain payments from the District for a Franchise Fee and a Utility Agreement Fee for the City liabilities or costs associated with the implementation and maintenance of the Agreement. As of the preparation of these financial statements, the District has not yet been charged a Franchise Fee, and the Utility Agreement Fee amounted to \$15,000 for the year ended December 31, 2022

The City of Lake Stevens City Council passed Ordinance No. 1108 on December 8, 2020. The operative clauses of the Ordinance assumed the full and complete management and control of the entire Lake Stevens Sewer District ninety or more days after its adoption.

The District has filed a lawsuit challenging the legality of the City's Ordinance. The ultimate outcome cannot be determined.

**NOTE 12 COVID-19 PANDEMIC**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel and in-person interactions. The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

**LAKE STEVENS SEWER DISTRICT**  
**SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY/(ASSET)**  
**PERS 1**  
**AS OF JUNE 30 (MEASUREMENT DATE)**  
**LAST TEN FISCAL YEARS\***  
**(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**PERS 1**

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.014650%	\$ 407,923	\$ 2,632,261	15.50%	76.56%
2021	0.017510%	213,843	2,496,781	8.56%	88.74%
2020	0.015136%	534,383	2,133,411	25.05%	68.64%
2019	0.015182%	583,802	2,140,249	27.28%	67.12%
2018	0.015136%	685,982	2,049,879	33.46%	63.22%
2017	0.015618%	741,086	1,969,540	37.63%	61.24%
2016	0.014697%	789,299	1,900,131	41.54%	57.03%
2015	0.015527%	812,207	1,709,572	47.51%	59.10%

**Notes to Schedule:**

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

**PERS 2/3**

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.019147%	\$ (710,104)	\$ 2,632,261	-26.98%	106.73%
2021	0.022508%	(2,242,121)	2,496,781	-89.80%	120.29%
2020	0.019583%	250,455	2,133,411	11.74%	97.22%
2019	0.019616%	190,538	2,140,249	8.90%	97.77%
2018	0.019597%	334,602	2,049,879	16.32%	95.77%
2017	0.020089%	697,997	1,969,540	35.44%	90.97%
2016	0.018805%	946,817	1,900,131	49.83%	85.82%
2015	0.020055%	716,577	1,709,572	41.92%	89.20%

**Notes to Schedule:**

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

**LAKE STEVENS SEWER DISTRICT  
SCHEDULES OF EMPLOYER CONTRIBUTIONS  
PERS 2/3  
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST TEN FISCAL YEARS\*  
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)**

**PERS 1**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2022	\$ 102,294	\$ (102,294)	\$ -	\$ 2,729,625	3.75%
2021	113,958	(113,958)	-	2,593,629	4.39%
2020	113,426	(113,426)	-	2,396,902	4.73%
2019	109,517	(109,517)	-	2,213,444	4.95%
2018	105,155	(105,155)	-	2,077,112	5.06%
2017	99,963	(99,963)	-	2,041,202	4.90%
2016	90,631	(90,631)	-	1,900,131	4.77%
2015	74,823	(74,823)	-	1,709,572	4.38%
2014	72,116	(72,116)	-	1,788,182	4.03%
2013	56,032	(56,032)	-	1,778,324	3.15%

**PERS 2/3**

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2022	\$ 173,604	\$ (173,604)	\$ -	\$ 2,729,625	6.36%
2021	188,802	(188,802)	-	2,593,629	7.28%
2020	187,669	(187,669)	-	2,396,902	7.83%
2019	170,810	(170,810)	-	2,213,444	7.72%
2018	155,173	(155,173)	-	2,077,112	7.47%
2017	139,754	(139,754)	-	2,041,202	6.85%
2016	121,795	(121,795)	-	1,900,131	6.41%
2015	99,105	(99,105)	-	1,709,572	5.80%
2014	92,548	(92,548)	-	1,788,182	5.18%
2013	88,633	(88,633)	-	1,778,324	4.98%





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