



Office of the Washington State Auditor  
Pat McCarthy

## Financial Statements Audit Report

# Lake Whatcom Water and Sewer District

For the period January 1, 2020 through December 31, 2021

*Published February 2, 2023*

Report No. 1031944



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

February 2, 2023

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

**Report on Financial Statements**

Please find attached our report on the Lake Whatcom Water and Sewer 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

***Americans with Disabilities***

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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*

#### **Lake Whatcom Water and Sewer District January 1, 2020 through December 31, 2021**

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, 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 Lake Whatcom Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 26, 2023.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits 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 opinions 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

January 26, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Lake Whatcom Water and Sewer District January 1, 2020 through December 31, 2021**

Board of Commissioners  
Lake Whatcom Water and Sewer District  
Bellingham, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Lake Whatcom Water and Sewer District, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the financial section of our report.

### **Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System (BARS) Manual*. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Lake Whatcom Water and Sewer District, and its changes in cash and investments, for the years ended December 31, 2021 and 2020, on the basis of accounting described in Note 1.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Lake Whatcom Water and Sewer District, as of December 31, 2021 and 2020, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. 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 unmodified and adverse opinions.

## **Matter Giving Rise to Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible 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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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
- We are required to 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.

### **Supplementary Information**

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2023 on our consideration of the District's internal control over financial reporting and on the 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

January 26, 2023

## **FINANCIAL SECTION**

### **Lake Whatcom Water and Sewer District January 1, 2020 through December 31, 2021**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2021  
Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to Financial Statements – 2021  
Notes to Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2021  
Schedule of Liabilities – 2020

**Lake Whatcom Water and Sewer District  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2021**

**Beginning Cash and Investments**

|           |                                |           |
|-----------|--------------------------------|-----------|
| 308       | Beginning Cash and Investments | 4,585,541 |
| 388 / 588 | Net Adjustments                | -         |

**Revenues**

|                 |                                |                  |
|-----------------|--------------------------------|------------------|
| 310             | Taxes                          | -                |
| 320             | Licenses and Permits           | -                |
| 330             | Intergovernmental Revenues     | -                |
| 340             | Charges for Goods and Services | 7,808,109        |
| 350             | Fines and Penalties            | 17,943           |
| 360             | Miscellaneous Revenues         | 124,877          |
| Total Revenues: |                                | <u>7,950,929</u> |

**Expenditures**

|                                                 |                              |                  |
|-------------------------------------------------|------------------------------|------------------|
| 510                                             | General Government           | -                |
| 520                                             | Public Safety                | -                |
| 530                                             | Utilities                    | 5,323,781        |
| 540                                             | Transportation               | -                |
| 550                                             | Natural/Economic Environment | -                |
| 560                                             | Social Services              | -                |
| 570                                             | Culture and Recreation       | -                |
| Total Expenditures:                             |                              | <u>5,323,781</u> |
| Excess (Deficiency) Revenues over Expenditures: |                              | 2,627,148        |

**Other Increases in Fund Resources**

|                                          |                                |                |
|------------------------------------------|--------------------------------|----------------|
| 391-393, 596                             | Debt Proceeds                  | -              |
| 397                                      | Transfers-In                   | -              |
| 385                                      | Special or Extraordinary Items | -              |
| 381, 382, 389,<br>395, 398               | Other Resources                | 137,564        |
| Total Other Increases in Fund Resources: |                                | <u>137,564</u> |

**Other Decreases in Fund Resources**

|                                          |                                |                  |
|------------------------------------------|--------------------------------|------------------|
| 594-595                                  | Capital Expenditures           | 1,291,249        |
| 591-593, 599                             | Debt Service                   | 869,520          |
| 597                                      | Transfers-Out                  | -                |
| 585                                      | Special or Extraordinary Items | -                |
| 581, 582, 589                            | Other Uses                     | 1,500            |
| Total Other Decreases in Fund Resources: |                                | <u>2,162,269</u> |

**Increase (Decrease) in Cash and Investments: 602,443**

**Ending Cash and Investments**

|                                          |              |                         |
|------------------------------------------|--------------|-------------------------|
| 50821                                    | Nonspendable | -                       |
| 50831                                    | Restricted   | 772,334                 |
| 50841                                    | Committed    | 1,275,000               |
| 50851                                    | Assigned     | 3,140,647               |
| 50891                                    | Unassigned   | -                       |
| <b>Total Ending Cash and Investments</b> |              | <b><u>5,187,981</u></b> |

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

**Lake Whatcom Water and Sewer District  
Fund Resources and Uses Arising from Cash Transactions  
For the Year Ended December 31, 2020**

**Beginning Cash and Investments**

|           |                                |           |
|-----------|--------------------------------|-----------|
| 308       | Beginning Cash and Investments | 4,370,069 |
| 388 / 588 | Net Adjustments                | -         |

**Revenues**

|                 |                                |           |
|-----------------|--------------------------------|-----------|
| 310             | Taxes                          | -         |
| 320             | Licenses and Permits           | -         |
| 330             | Intergovernmental Revenues     | 54,317    |
| 340             | Charges for Goods and Services | 7,313,171 |
| 350             | Fines and Penalties            | 30,661    |
| 360             | Miscellaneous Revenues         | 62,630    |
| Total Revenues: |                                | 7,460,779 |

**Expenditures**

|                                                 |                              |           |
|-------------------------------------------------|------------------------------|-----------|
| 510                                             | General Government           | -         |
| 520                                             | Public Safety                | -         |
| 530                                             | Utilities                    | 5,115,034 |
| 540                                             | Transportation               | -         |
| 550                                             | Natural/Economic Environment | -         |
| 560                                             | Social Services              | -         |
| 570                                             | Culture and Recreation       | -         |
| Total Expenditures:                             |                              | 5,115,034 |
| Excess (Deficiency) Revenues over Expenditures: |                              | 2,345,745 |

**Other Increases in Fund Resources**

|                                          |                                |   |
|------------------------------------------|--------------------------------|---|
| 391-393, 596                             | Debt Proceeds                  | - |
| 397                                      | Transfers-In                   | - |
| 385                                      | Special or Extraordinary Items | - |
| 381, 382, 389,<br>395, 398               | Other Resources                | - |
| Total Other Increases in Fund Resources: |                                | - |

**Other Decreases in Fund Resources**

|                                          |                                |           |
|------------------------------------------|--------------------------------|-----------|
| 594-595                                  | Capital Expenditures           | 1,255,224 |
| 591-593, 599                             | Debt Service                   | 875,050   |
| 597                                      | Transfers-Out                  | -         |
| 585                                      | Special or Extraordinary Items | -         |
| 581, 582, 589                            | Other Uses                     | -         |
| Total Other Decreases in Fund Resources: |                                | 2,130,274 |

**Increase (Decrease) in Cash and Investments: 215,471**

**Ending Cash and Investments**

|                                          |              |                  |
|------------------------------------------|--------------|------------------|
| 50821                                    | Nonspendable | -                |
| 50831                                    | Restricted   | 772,334          |
| 50841                                    | Committed    | 1,256,088        |
| 50851                                    | Assigned     | 2,557,124        |
| 50891                                    | Unassigned   | -                |
| <b>Total Ending Cash and Investments</b> |              | <b>4,585,546</b> |

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District was incorporated in 1968 and operates under the laws of the state of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District uses single-entry, cash basis accounting, which is a departure from accounting principles generally accepted in the United States of America.

The Lake Whatcom Water and Sewer District (the District) reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The District uses a proprietary fund type:

Enterprise Fund

This fund accounts for operations that provide goods and services to the general public and is supported primarily through user charges.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

b. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid. In accordance with State law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the prior period.

Purchases of capital assets are expensed during the year of acquisition. There is neither capitalization of capital assets nor allocation of depreciation expense. Inventory, if any, is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Cash and Investments

See Note 3, Deposits and *Investments*.

d. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

e. Compensated Absences

Vacation leave may be accumulated up to 80 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 1,000 hours. If an employee separates with at least ten years of service, the employee will be paid for sick leave balances up to 1,000 hours at one-quarter of the employee's final hourly pay rate.

f. Long-Term Debt

See Note 4, Long-Term Debt (formerly *Debt Service Requirements*).

g. Reserved Fund Balance

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses, including debt service and other special reserve requirements. Restricted funds totaled \$772,334 as of December 31, 2021.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 2. RISK MANAGEMENT**

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 72 members. The Pool's fiscal year is November 1st through October 31st.

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

The annual report of Water & Sewer Risk Management Pool can be located at the following website: <http://www.wsrmp.org/documents/2021WSRMPANNUALREPORT.pdf>.

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 2. RISK MANAGEMENT**, (continued)

| TYPE OF COVERAGE                      | MEMBER DEDUCTIBLE                          | SELF-INSURED RETENTION/GROUP                           | EXCESS LIMITS                                                                                                                                  |
|---------------------------------------|--------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Property Loss:</b>                 |                                            |                                                        |                                                                                                                                                |
| Buildings and Contents                | \$1,000 - \$25,000<br>and See (C) below    | \$25,000                                               | \$275,000,000                                                                                                                                  |
| Flood                                 | See (A) below                              | See (A) below                                          | \$25,000,000                                                                                                                                   |
| Earthquake                            | See (B) below                              | See (B) below                                          | \$110,000,000<br>((\$75,000,000 shared by all members,<br>\$25,000,000 dedicated to Alderwood,<br>\$10,000,000 dedicated to Sammamish Plateau) |
| Terrorism                             | \$1,000 - \$25,000                         | \$25,000<br>Primary layer                              | \$700,000,000<br>Primary layer                                                                                                                 |
| Boiler & Machinery                    | \$1,000 - \$350,000<br>depending on object | \$25,000 - \$350,000<br>depending on object            | \$100,000,000                                                                                                                                  |
| Auto - Physical Damage                | \$1,000-\$25,000                           | \$25,000                                               |                                                                                                                                                |
| <b>Liability:</b>                     |                                            |                                                        |                                                                                                                                                |
| Commercial General Liability          | \$1,000 - \$25,000                         | \$300,000, subject to<br>\$150,000 Corridor Deductible | \$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                                                                                                                                   |
| <b>Other:</b>                         |                                            |                                                        |                                                                                                                                                |
| 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.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 2. RISK MANAGEMENT**, (continued)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 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.

**NOTE 3. DEPOSITS AND INVESTMENTS**

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

The District's cash and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the Enterprise Fund.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. 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 restriction on participant withdrawals.

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 3. DEPOSITS AND INVESTMENTS, (continued)**

Investments by type as of December 31, 2021, are as follows:

| Type of Deposit or Investment    | District's Own Deposit & Investments | Total               |
|----------------------------------|--------------------------------------|---------------------|
| Bank Deposits                    | \$ 1,640,942                         | \$ 1,640,942        |
| Certificates of Deposit          | \$ -                                 | \$ -                |
| Local Government Investment Pool | \$ 236,525                           | \$ 236,525          |
| U.S. Government Securities       | <u>\$ 3,310,514</u>                  | <u>\$ 3,310,514</u> |
| Total                            | <u>\$ 5,187,981</u>                  | <u>\$ 5,187,981</u> |

The District's Federal Home Loan Bank Bonds, FNMA Bonds and Federal Farm Credit Bonds have maturity dates ranging from January 2022 to June 2024. The securities have 0.19-2.38% interest rates.

**Credit Risk** - The District's investment policy limits investments to those authorized by state of Washington statutes governing the investment of public funds. As of December 31, 2021, the District's investments in Federal Home Loan Bank Bonds were rated AAA by Moody's Rating Service.

**NOTE 4. LONG-TERM DEBT (formerly Debt Service Requirements)**

Drinking Water State Revolving Fund (DWSRF) Loans – The District was approved by the U.S. Environmental Protection Agency (EPA) and the Washington State Public Works Board (PWB) to receive loans through the DWSRF program in order to improve its drinking water system.

The currently outstanding debt is as follows:

| Project                  | Original Amount     | Interest Rate | Amount Outstanding  |
|--------------------------|---------------------|---------------|---------------------|
| 2016 Refunding Bonds     | \$ 6,415,000        | 2.0% - 4.0%   | \$ 5,170,000        |
| DWSRF Loan DM 13-952-137 | 2,398,750           | 1.5%          | 1,679,125           |
| DWSRF Loan DM 13-952-136 | <u>994,850</u>      | 1.5%          | <u>1,047,595</u>    |
| Totals                   | <u>\$ 9,808,600</u> |               | <u>\$ 7,896,720</u> |

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 4. LONG-TERM DEBT (formerly Debt Service Requirements), (continued)**

The annual debt service requirements to maturity for revenue debts are as follows:

| <u>Fiscal Year Ending December 31</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|---------------------------------------|---------------------|---------------------|---------------------|
| 2022                                  | \$ 630,413          | \$ 233,276          | \$ 863,689          |
| 2023                                  | 655,413             | 217,145             | 872,558             |
| 2024                                  | 665,413             | 200,264             | 865,677             |
| 2025                                  | 675,413             | 178,282             | 853,695             |
| 2026-2030                             | 3,292,062           | 555,918             | 3,847,980           |
| 2031-2035                             | 1,847,061           | 152,939             | 2,000,000           |
| 2036-2040                             | <u>130,945</u>      | <u>2,946</u>        | <u>133,891</u>      |
| Totals                                | <u>\$ 7,896,720</u> | <u>\$ 1,540,770</u> | <u>\$ 9,437,490</u> |

**Total Debt** - The accompanying Schedule of Liabilities (Schedule - 09) provides further detail on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2021. There is \$772,334 in restricted assets of the District as of December 31, 2021; these represent sinking funds and reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

**NOTE 5. PENSION PLANS**

Substantially all the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined-benefit and defined-contribution retirement plans (the Plans).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, 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 98504-8380

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 5. PENSION PLANS, (continued)**

At June 30, 2021 (the measurement date of the Plans), the District's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

|             | <b>Allocation %</b>                   | <b>Liability (Asset)</b> |
|-------------|---------------------------------------|--------------------------|
| PERS 1 UAAL | 0.011673%                             | \$ 142,555               |
| PERS 2/3    | 0.015009%                             | (1,495,138)              |
|             | Total Net Pension Liability (Sch. 09) | \$ 142,555               |

**NOTE 6. DEFERRED COMPENSATION PLANS**

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is with the state of Washington, Committee for Deferred Compensation. The District also offers a deferred compensation plan with ICMA RC. These plans, available to eligible employees, permit them to defer a portion of their salary to future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the state of Washington Deferred Compensation Plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer considered to be property/debt of the District.

**NOTE 7. PUBLIC EMPLOYEES BENEFITS BOARD (PEBB) PROGRAM**

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 through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 17 active plan members and 3 retired plan members as of December 31, 2021. The District contributed \$355,126 to the plan for the year ended December 31, 2021.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 8. CAPITAL ASSET ACTIVITY**

In addition to protecting against variations in the timing of operating costs and revenues, it is prudent to maintain a capital contingency amount to meet unexpected emergency capital outlays. While it would be impractical to reserve against major system-wide failures as a result of a catastrophic event, it is reasonable to identify and quantify possible failures of individual system components. The District utilizes an estimate of replacement costs to derive the targeted contingency dollar amount. The District's estimated replacement costs of capital assets as of December 31, 2021, totals \$127,500,000. This investment in capital assets includes water collection and transmission lines, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, administration and operation facilities, and transportation and office equipment. The District currently has \$1,275,000 (approximately 1.0% of estimated replacement costs) for capital contingency.

**NOTE 9. MEMBERSHIP**

The Whatcom County Council of Governments (The Council) is a distinct municipal entity with its own assets, liabilities, and governing board. The Council was created in 1966, when voters approved a ballot measure to create the Whatcom County Council of Governments. Membership in the Council provides a forum through which mutual cooperation is facilitated among its members. The Council is not a component unit of the District. The District paid \$236 in membership dues for the year ended December 31, 2021.

**NOTE 10. COVID-19**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

As a public utility providing water and sewer services we have noted little change to our normal water demand. Due to the District's uniform rate structure for sewer accounts, there has not been a noted change in sewer revenues.

The District's Board of Commissioners voted to adhere to the Governor's proclamation 20.23 temporarily suspending late fees, service suspension fees and service terminations through April 30, 2021 which was extended through September 30, 2021, as required by proclamation 20-23.16. Further, the District's Board of Commissioners directed staff to extend the moratorium of disconnection suspensions within the District through October 31, 2021, with disconnection of services for non-payment resuming November 1, 2021. These measures were to provide customer relief from economic conditions created by the COVID-19 coronavirus pandemic. The overall impact of these fee suspensions were minimal to the District's revenue flow and arrearages have returned to pre-pandemic levels.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2021

**NOTE 10. COVID-19** , (continued)

We recognize that it is unknown at this time what the overall impact of the COVID-19 pandemic will be. It is the District's ultimate goal to ensure continued operation of our water and sewer systems. We remain committed to our organizational mission to be responsive to the needs of our customers and promote a safe work environment for our employees.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 1. NATURE OF BUSINESS**

The District was incorporated in 1968 and operates under the laws of the state of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District uses single-entry, cash basis accounting, which is a departure from accounting principles generally accepted in the United States of America.

The Lake Whatcom Water and Sewer District (the District) reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The District uses a proprietary fund type:

Enterprise Fund

This fund accounts for operations that provide goods and services to the general public and is supported primarily through user charges.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid. In accordance with State law, the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the prior period.

Purchases of capital assets are expensed during the year of acquisition. There is neither capitalization of capital assets nor allocation of depreciation expense. Inventory, if any, is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Cash and Investments

See Note 3, *Investments*.

d. Deposits

The District's cash and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

e. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

f. Compensated Absences

Vacation leave may be accumulated up to 80 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 1,000 hours. If an employee separates with at least ten years of service, the employee will be paid for sick leave balances up to 1,000 hours at one-quarter of the employee's final hourly pay rate

g. Long-Term Debt

See Note 4, *Debt Service Requirements*.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

h. Risk Management

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

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

The annual report of Water & Sewer Risk Management Pool can be located at the following website: <http://www.wsrmp.org/documents/2020WSRMPANNUALREPORT.pdf>.

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

h. Risk Management, (continued)

| TYPE OF COVERAGE                      | MEMBER DEDUCTIBLE                       | SELF-INSURED RETENTION/GROUP                        | EXCESS LIMITS                                                                                                                           |
|---------------------------------------|-----------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| <b>Property Loss:</b>                 |                                         |                                                     |                                                                                                                                         |
| Buildings and Contents                | \$1,000 - \$25,000 and See (C) below    | \$25,000                                            | \$275,000,000                                                                                                                           |
| Flood                                 | See (A) below                           | See (A) below                                       | \$50,000,000                                                                                                                            |
| Earthquake                            | See (B) below                           | See (B) below                                       | \$110,000,000<br>(\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau) |
| Terrorism                             | \$1,000 - \$25,000                      | \$25,000<br>Primary layer                           | \$700,000,000<br>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                                                                                                              |
| <b>Liability:</b>                     |                                         |                                                     |                                                                                                                                         |
| Commercial General Liability          | \$1,000 - \$25,000                      | \$300,000, subject to \$150,000 Corridor Deductible | \$15,000,000                                                                                                                            |
| Auto Liability                        | \$1,000 - \$25,000                      | Same as above                                       | \$15,000,000                                                                                                                            |
| Public Officials Errors and Omissions | \$1,000 - \$25,000                      | Same as above                                       | \$15,000,000                                                                                                                            |
| Employment Practices                  | \$1,000 - \$25,000                      | Same as above                                       | \$15,000,000                                                                                                                            |
| <b>Other:</b>                         |                                         |                                                     |                                                                                                                                         |
| Cyber Liability                       | \$50,000                                | N/A                                                 | \$2,000,000                                                                                                                             |
| Deadly Weapon/Active Shooter          | \$10,000                                | N/A                                                 | \$500,000                                                                                                                               |
| 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.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

h. Risk Management, (continued)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six month's notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2021, written notice must be in possession of the Pool by April 30, 2021). 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.

i. Reserved Fund Balance

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses, including debt service and other special reserve requirements. Restricted funds totaled \$772,334 as of December 31, 2020.

**NOTE 3. INVESTMENTS**

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the Enterprise Fund.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 3. INVESTMENTS, (continued)**

43.250 RCW. 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 restriction on participant withdrawals.

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

Investments by type as of December 31, 2020, are as follows:

| Type of Deposit or Investment    | District's Own Deposit & Investments | Total               |
|----------------------------------|--------------------------------------|---------------------|
| Bank Deposits                    | \$ 1,225,325                         | \$ 1,225,325        |
| Certificates of Deposit          | \$ -                                 | \$ -                |
| Local Government Investment Pool | \$ 1,036,243                         | \$ 1,036,243        |
| U.S. Government Securities       | \$ 2,323,978                         | \$ 2,323,978        |
| <b>Total</b>                     | <b>\$ 4,585,546</b>                  | <b>\$ 4,585,546</b> |

The District's Federal Home Loan Bank Bonds, FNMA Bonds and Financing Corporation Strip Bonds have maturity dates ranging from January 2021 to June 2024. The securities have 0-0.875% interest rates.

**Credit Risk** - The District's investment policy limits investments to those authorized by state of Washington statutes governing the investment of public funds. As of December 31, 2020, the District's investments in Federal Home Loan Bank Bonds were rated AAA by Moody's Rating Service.

**NOTE 4. DEBT SERVICE REQUIREMENTS**

Drinking Water State Revolving Fund (DWSRF) Loans – The District was approved by the U.S. Environmental Protection Agency (EPA) and the Washington State Public Works Board (PWB) to receive loans through the DWSRF program in order to improve its drinking water system.

The currently outstanding debt is as follows:

| Project                  | Original Amount     | Interest Rate | Amount Outstanding  |
|--------------------------|---------------------|---------------|---------------------|
| 2016 Refunding Bonds     | \$ 6,415,000        | 2.0% - 4.0%   | \$ 5,605,000        |
| DWSRF Loan DM 13-952-137 | 2,398,750           | 1.5%          | 1,799,062           |
| DWSRF Loan DM 13-952-136 | 994,850             | 1.5%          | 1,113,070           |
| <b>Totals</b>            | <b>\$ 9,808,600</b> |               | <b>\$ 8,517,132</b> |

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 4. DEBT SERVICE REQUIREMENTS, (continued)**

The annual debt service requirements to maturity for revenue debts are as follows:

| <u>Fiscal Year Ending December 31</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>         |
|---------------------------------------|---------------------|---------------------|----------------------|
| 2021                                  | \$ 620,413          | \$ 249,107          | \$ 869,520           |
| 2022                                  | 630,413             | 233,276             | 863,689              |
| 2023                                  | 655,413             | 217,145             | 872,558              |
| 2024                                  | 665,413             | 200,264             | 865,677              |
| 2025-2029                             | 3,592,062           | 671,149             | 4,263,211            |
| 2030-2034                             | 1,962,062           | 208,245             | 2,170,307            |
| 2035-2039                             | <u>391,356</u>      | <u>10,691</u>       | <u>402,047</u>       |
| Totals                                | <u>\$ 8,517,132</u> | <u>\$ 1,789,877</u> | <u>\$ 10,307,009</u> |

**Total Debt** - The accompanying Schedule of Liabilities (Schedule - 09) provides further detail on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2020. There is \$772,334 in restricted assets of the District as of December 31, 2020; these represent sinking funds and reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

**NOTE 5. PENSION PLANS**

Substantially all the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems (DRS) under cost-sharing, multiple-employer public employee defined-benefit and defined-contribution retirement plans (the Plans).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

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

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 5. PENSION PLANS, (continued)**

At June 30, 2020 (the measurement date of the Plans), the District's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

|              | <b>Allocation %</b>                   | <b>Liability (Asset)</b> |
|--------------|---------------------------------------|--------------------------|
| PERS 1 UAAL  | 0.011351%                             | \$ 400,752               |
| PERS 2 and 3 | 0.014710%                             | \$ 188,132               |
|              | Total Net Pension Liability (Sch. 09) | \$ 588,884               |

**NOTE 6. DEFERRED COMPENSATION PLANS**

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is with the state of Washington, Committee for Deferred Compensation. The District also offers a deferred compensation plan with ICMA RC. These plans, available to eligible employees, permit them to defer a portion of their salary to future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the state of Washington Deferred Compensation Plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998, the plan assets and liabilities are no longer considered to be property/debt of the District.

**NOTE 7. PUBLIC EMPLOYEES BENEFITS BOARD (PEBB) PROGRAM**

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 through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 18 active plan members and 2 retired plan members as of December 31, 2020. The District contributed \$333,440 to the plan for the year ended December 31, 2020.

**LAKE WHATCOM WATER AND SEWER DISTRICT**  
**NOTES TO SPECIAL-PURPOSE SCHEDULES**  
For the year ended December 31, 2020

**NOTE 8. CAPITAL ASSET ACTIVITY**

In addition to protecting against variations in the timing of operating costs and revenues, it is prudent to maintain a capital contingency amount to meet unexpected emergency capital outlays. While it would be impractical to reserve against major system-wide failures as a result of a catastrophic event, it is reasonable to identify and quantify possible failures of individual system components. The District utilizes an estimate of replacement costs to derive the targeted contingency dollar amount. The District's estimated replacement costs of capital assets as of December 31, 2020, totals \$125,600,000. This investment in capital assets includes water collection and transmission lines, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, administration and operation facilities, and transportation and office equipment. The District currently has \$1,256,088 (approximately 1.0% of estimated replacement costs) for capital contingency.

**NOTE 9. MEMBERSHIP**

The Whatcom County Council of Governments (The Council) is a distinct municipal entity with its own assets, liabilities, and governing board. The Council was created in 1966, when voters approved a ballot measure to create the Whatcom County Council of Governments. Membership in the Council provides a forum through which mutual cooperation is facilitated among its members. The Council is not a component unit of the District. The District paid \$236 in membership dues for the year ended December 31, 2020.

**NOTE 10. COVID-19**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

As a public utility providing water and sewer services we have noted little change to our normal water demand. Due to the District's uniform rate structure for sewer accounts, there has not been a noted change in sewer revenues.

The District's Board of Commissioners voted to adhere to the Governor's proclamation 20.23 temporarily suspending late fees, service suspension fees and service terminations through April 30, 2021. These measures are to provide customer relief from economic conditions created by the COVID-19 coronavirus pandemic. The overall impact of this fee suspension should be minimal to the District's revenue flow.

We recognize that it is unknown at this time what the overall impact of the COVID-19 pandemic will be. It is the District's ultimate goal to ensure continued operation of our water and sewer systems. We remain committed to our organizational mission to be responsive to the needs of our customers and promote a safe work environment for our employees.

**Lake Whatcom Water and Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2021**

| ID. No.                                                         | Description                             | Due Date   | Beginning<br>Balance | Additions     | Reductions       | Ending Balance   |
|-----------------------------------------------------------------|-----------------------------------------|------------|----------------------|---------------|------------------|------------------|
| <b>Revenue and Other (non G.O.) Debt/Liabilities</b>            |                                         |            |                      |               |                  |                  |
| 252.11                                                          | Refunding Bonds - Issued 2016           | 11/1/2035  | 5,605,000            | -             | 435,000          | 5,170,000        |
| 259.12                                                          | Compensated Absences                    | 12/31/2021 | 98,458               | 11,712        | -                | 110,170          |
| 263.92                                                          | Latecomer Fees & Other Deferred Credits | 12/31/2099 | 15,500               | -             | 2,500            | 13,000           |
| 264.30                                                          | Pension Liability                       | 12/31/2099 | 588,884              | -             | 446,329          | 142,555          |
| 263.88                                                          | DWSRF Loan DM13-952-137                 | 10/1/2035  | 1,799,062            | -             | 119,937          | 1,679,125        |
| 263.88                                                          | DWSRF Loan DM 13-952-136                | 10/1/2037  | 1,113,070            | -             | 65,475           | 1,047,595        |
| 264.40                                                          | OPEB Liability                          | 12/31/2099 | 1,127,932            | -             | 116,243          | 1,011,689        |
| <b>Total Revenue and Other (non G.O.)<br/>Debt/Liabilities:</b> |                                         |            | <b>10,347,906</b>    | <b>11,712</b> | <b>1,185,484</b> | <b>9,174,134</b> |
| <b>Total Liabilities:</b>                                       |                                         |            | <b>10,347,906</b>    | <b>11,712</b> | <b>1,185,484</b> | <b>9,174,134</b> |

**Lake Whatcom Water and Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

| ID. No.                                                         | Description                   | Due Date   | Beginning<br>Balance | Additions      | Reductions     | Ending Balance    |
|-----------------------------------------------------------------|-------------------------------|------------|----------------------|----------------|----------------|-------------------|
| <b>Revenue and Other (non G.O.) Debt/Liabilities</b>            |                               |            |                      |                |                |                   |
| 252.11                                                          | Refunding Bonds - Issued 2016 | 11/1/2035  | 6,030,000            | -              | 425,000        | 5,605,000         |
| 259.12                                                          | Compensated absences          | 12/31/2021 | 92,794               | 5,664          | -              | 98,458            |
| 263.92                                                          | Latecomer Fees                | 12/31/2099 | 15,500               | -              | -              | 15,500            |
| 264.30                                                          | Pension Liability             | 12/31/2099 | 565,093              | 23,791         | -              | 588,884           |
| 263.88                                                          | DWSRF Loan DM13-952-137       | 10/1/2035  | 1,919,000            | -              | 119,938        | 1,799,062         |
| 263.88                                                          | DWSRF Loan DM13-952-136       | 10/1/2037  | 1,178,545            | -              | 65,475         | 1,113,070         |
| 264.40                                                          | OPEB Liability                | 12/31/2099 | 884,476              | 243,456        | -              | 1,127,932         |
| <b>Total Revenue and Other (non G.O.)<br/>Debt/Liabilities:</b> |                               |            | <b>10,685,408</b>    | <b>272,911</b> | <b>610,413</b> | <b>10,347,906</b> |
| <b>Total Liabilities:</b>                                       |                               |            | <b>10,685,408</b>    | <b>272,911</b> | <b>610,413</b> | <b>10,347,906</b> |

## 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](http://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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