May 18, 2020

Pat McCarthy
Washington State Auditor
210 11th Street, Room G1
Olympia, Washington 98504

RE: 2019 Annual Financial Statements

Dear Pat McCarthy,

Please find the enclosed Covington Water District 2019 Annual Financial Report. If you have any questions please do not hesitate to contact me at 253-631-0565 Ext. 110.

Sincerely,

Caren Gallion, CPA
Finance Manager

Enclosure

cc: Thomas Keown, General Manager

ANNUAL REPORT CERTIFICATION

Covington Water District

MCAG No. 2684

Submitted pursuant to RCW 43.09.230 to the Washington State Auditor's Office

For the Fiscal Year Ended December 31, 2019

GOVERNMENT INFORMATION:

Official Mailing Address	18631 SE 300th Place, Covington, WA 98042
Official Web Site Address	www.covingtonwater.com
Official E-mail Address	caren.gallion@covingtonwater.com
Official Phone Number	253-631-0565

PREPARER INFORMATION and CERTIFICATION:

Preparer Name and Title	Caren Gallion, Finance Manager
Contact Phone Number	253-631-0565
Contact E-mail Address	caren.gallion@covingtonwater.com

I certify 18th day of May, 2020, that the annual report information is complete, accurate, and in conformity with the Budgeting, Accounting and Reporting Systems Manual, to the best of my knowledge and belief, having reviewed this information and taken all appropriate steps in order to provide such certification. I acknowledge and understand our responsibility for the design and implementation of controls to ensure accurate financial reporting, comply with applicable laws and safeguard public resources, including controls to prevent and detect fraud. Finally, I acknowledge and understand our responsibility for immediately submitting corrected annual report information if any errors or an omission in such information is subsequently identified.

Preparer Signature ______________________________

COVINGTON WATER DISTRICT

Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2019

INTRODUCTION

As management of the Covington Water District (district), we have prepared a narrative overview and analysis of the financial activities of the district for the fiscal year ended December 31, 2019. Please read this in conjunction with the financial statements, including the notes to the financial statements, following this commentary.

FINANCIAL HIGHLIGHTS

- The district's assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $141 million as of December 31, 2019.

- The district had a positive change in net position of $8.9 million for the year ended December 31, 2019.

- The district's required bond debt service coverage ratio was 10.34 as of December 31, 2019. This far exceeds the minimum requirement identified in the bond covenants of 1.25.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements, presented for the year ended December 31, 2019 are comprised of:

- **Statement of Net Position:** The statement of net position provides a record, or snap shot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the district at the close of the year. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to district creditors (liabilities). It provides a basis for evaluating the capital structure of the district and assessing its liquidity and financial flexibility.

- **Statement of Revenues, Expenses, and Changes in Fund Net Position:** The statement of revenues, expenses and changes in fund net position presents the results of the district's business activities over the course of the year. This information can be used to determine whether the district successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness.

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

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

CONDENSED COMPARATIVE FINANCIAL DATA

Statement of Net Position

	2019	2018	Increase (Decrease)	% Change
ASSETS				
Current assets	$ 39,267,143	$ 35,549,756	$ 3,717,387	10.5%
Capital assets, net	145,583,157	143,517,317	2,065,840	1.4%
Other non-current assets	831,085	859,901	(28,816)	(3.4)%
TOTAL ASSETS	**185,681,385**	**179,926,974**	**5,754,411**	**3.2%**
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**328,727**	**305,527**	**(23,200)**	**(7.6)%**
LIABILITIES				
Current liabilities	4,597,659	4,228,173	369,486	8.7%
Non-current liabilities	37,636,653	41,151,032	(3,514,379)	(8.5)%
TOTAL LIABILITIES	**42,234,312**	**45,379,205**	**(3,144,893)**	**(6.9)%**
TOTAL DEFERRED INFLOWS OF RESOURCES	**2,538,636**	**2,615,328**	**(76,692)**	**(2.9)%**
NET POSITION				
Net investment in capital assets	105,308,492	100,015,369	5,293,123	5.3%
Restricted	3,344,502	3,315,965	28,537	.9%
Unrestricted	32,584,170	28,906,634	3,677,536	12.7%
TOTAL NET POSITION	**$ 141,237,164**	**$ 132,237,968**	**8,999,196**	**6.8%**

Analysis of the Statement of Net Position

- The increase in current assets of approximately $3.74 million, or 10.5%, from 2018 to 2019 is primarily related to increased cash on hand.

- Capital assets consist of land, construction work in progress, and property & equipment, less accumulated depreciation. The increase in net capital assets of $2 million, approximately 1.4%, is the net effect of positive change in asset additions, negative change in construction work in progress, and increased accumulated depreciation.

- The decrease in other non-current assets of $28,816 is primarily related to WD#111 receivables, net of current portion in 2019.

- The decrease in deferred outflows of resources of $30,378 is primarily due to the decreased deferred outflows related to pensions related to GASB 68.

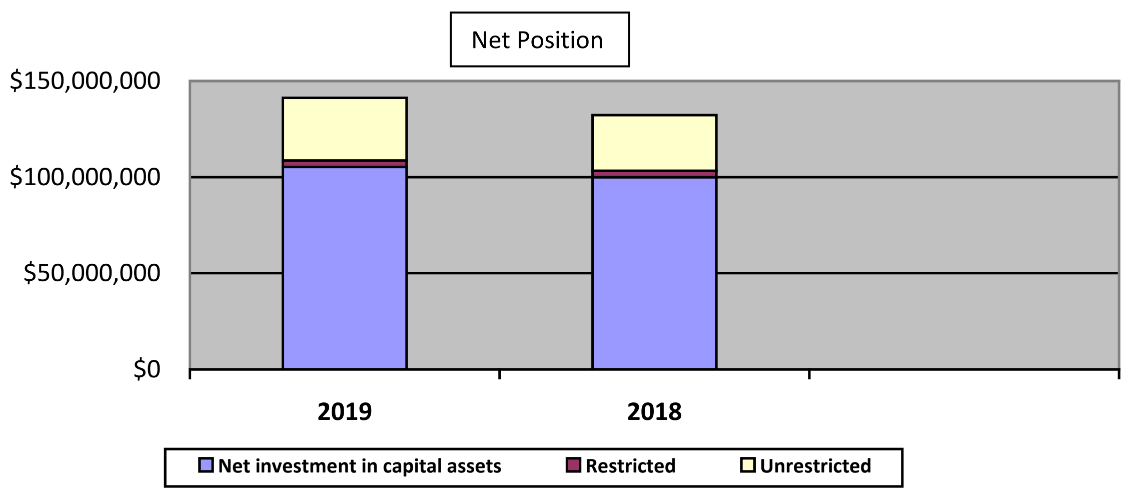
- The increase in current liabilities from 2018 to 2019 of $369,486 or 8.7% is directly related to the increased amount of accounts payable at the financial statement date.

- The decrease in non-current liabilities from 2018 to 2019 of $3.5M or 8.5% is primarily related to the reduction in long term payable portions of debt due to scheduled debt payments in 2019.

- The decrease in deferred inflows of resources of $76,692 is a net result of the net increase in deferred inflows related to pensions and the decrease in deferred inflows related to deferred gain on refunding due to regular straight line amortization.

- The district's net position increased by approximately $8.9 million from 2018 to 2019 as a direct result of the overall positive net change in position during 2019 as well as a cumulative effect of change in accounting principle resulting in an adjusted beginning net position.

The district shows positive balances in all categories of net position.



Having looked at the Statement of Net Position in detail, another common financial analysis tool is the Quick Ratio which compares the most liquid assets (non-restricted cash and equivalents) to current liabilities in order to assess the organization's ability to meet obligations. The district's Quick Ratio is 7.35 ($33.8M cash/$4.5M current liabilities) for 2019. While there are no set 'rules' regarding Quick Ratios, district management believes this is a very healthy ratio.

COVINGTON WATER DISTRICT

Management's Discussion and Analysis (MD&A)
For the year ended December 31, 2019

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

	2019	2018	Increase (Decrease)	% Change
Water service revenues	$ 13,406,932	$ 14,153,459	($746,527)	(5.3)%
Other operating revenues	721,296	746,749	(25,453)	(3.4)%
Non-operating revenues	801,462	563,565	237,897	42.2%
TOTAL REVENUES	**14,929,690**	**15,463,773**	**(534,083)**	**(3.5)%**
Production, operations, maintenance	3,198,073	2,929,757	268,316	9.2%
Administrative, taxes	4,745,741	4,957,381	(211,640)	(4.3)%
Depreciation expense	4,431,366	4,388,742	42,624	1%
Non-operating expenses	1,256,422	1,046,483	209,939	20%
TOTAL EXPENSES	**13,631,602**	**13,322,363**	**309,239**	**2.3%**
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	**1,298,088**	**2,141,410**	**(843,322)**	**(39.4)%**
Capital contributions	7,701,108	6,666,086	1,035,022	15.5%
CHANGE IN NET POSITION	**8,999,196**	**8,807,496**	**191,700**	**2.1%**
Change in accounting principle	---	(1,131,025)	1,131,025	100%
BEGINNING NET POSITION	132,237,968	**124,561,497**	7,676,471	**6.2%**
ENDING NET POSITION	**$ 141,237,164**	**$ 132,237,968**	**$8,999,196**	**6.8%**

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

- Water service revenue decreased 5.3% in 2019, which is a result of weather related decreased residential and irrigation water sales as compared to 2018.
- Other operating revenues consist of street lights, late fees and other miscellaneous charges related to water customer accounts. The decrease of 3.4% in 2019 is made up of a net in positive change in various accounts and is considered reasonable.
- The increase in non-operating revenues of $237,897 is a primarily due to an increase in interest income from the prior year.
- Production, operations, and maintenance expenses increased by 9.2% in 2019, which fluctuates by nature and is considered reasonable.
- Administrative expenses fluctuate by nature and a decrease of 4.3% is considered reasonable.

- Depreciation expense is a non-cash operating expense that systematically allocates the historical cost of a capital asset over its useful life. It is a proxy for the cost of using a capital asset or for the gradual wearing out of a capital asset over time. The district starts charging depreciation expense in the year following the capitalization of an asset. The expense in 2019 is reasonable based on the assets in service.

- The increase in 2019 from 2018 of non-operating expenses of 20% is primarily due to an increase in losses of capital asset disposition.

- Capital contributions are comprised of meter installation charges, connection charges, and donated capital assets. There was a net increase from the prior year in total capital contributions of 15.5% in 2019.

    - **Meter installation charges-** The meter installation is the last step in the connection process. Once the meter installation charge has been collected and the meter installed, the customer becomes a part of the utility billing process. Meter installation charges fluctuate by nature from year to year based on development. Meter installations and therefore charges, decreased in 2019 by 20%.

    - **Connection charges**- The district collects connection charges in order to ensure that future customers bear most of the burden of growth. Connection charges consist of the Future Facilities Fee (new customers' proportionate share of future facilities needed to serve each new customer); Existing Facilities Fee (new customer proportionate share of existing system general supply and storage facilities) and Existing Distribution Facilities Fee (new customers' proportionate share of existing pipes, hydrants, valves and distribution facilities). Connection charges are collected in stages as the water availability certificate is issued, the system extension application is approved, the completed system is accepted by the district, and the meter application is submitted. The entire process typically extends over several years. The bulk of the facility charge revenue represents a small number of large developer projects – typically only 20 to 25 projects are in process at a time. The timing is not subject to the district's control and the total revenue can substantially vary from year to year with the delay or acceleration of only a few projects. Connection charges received in 2019 were 37% lower than the prior year.

    - **Donated capital assets-** The district also receives additions to the distribution system from developers. Donated capital assets are recognized when the system is completed according to the district's specifications and accepted by the district. The timing is not subject to the district's control, and therefore fluctuates by nature from year to year. Donated capital assets increased in 2019 from the prior year by 114%.

The district recorded a positive change in Net Position in 2019 of $8,999,196 as a result of the combination of the items outlined in the bullet points above.

OVERALL ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The district's overall financial position has improved since the prior year, with a healthy increase in net position for 2019. The district's financial condition remains strong at 2019 year-end with adequate liquid assets, positive operating cash flow, a robust unrestricted net position, reliable plants and systems and favorable debt service coverage ratios.

The district expects to see continued growth in its service area. As a result, operating expenses are expected to continue to increase proportionately due primarily to plant expansion necessary to meet anticipated customer needs, increased depreciation, increased supply costs and increased security requirements. Due to the District's strong financial position at the end of 2019, the District did not increase 2020 water rates.

The expected growth in the service area will also require increased capital investment to meet fire flow requirements of the newer cities in the area, make system improvements concurrent with the cities' road improvements to avoid the cost of resurfacing, and to respond to increased water quality regulations and conservation requirements.

CAPTIAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital Assets

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

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

The overall net increase of $2,065,840 in net capital assets consisted of:

Item	Net Increase (Decrease)
Donated assets (infrastructure donated by developers & customers)	$ 4,978,842
Net book value of asset disposals	(324,378)
Capital asset additions	3,318,591
Construction work in progress	(1,475,849)
Depreciation	(4,431,366)
Net increase	$ 2,065,840

- The $4,978,842 in donated assets in 2019 consists of seventeen developer extension projects that range in amounts from approximately $31k to $901k, in addition to donated meters from customers.

- The $3,318,591 net increase in capital asset additions is related to the completion and close out of multiple Capital Improvement Projects as well as the purchase of capital assets.

- The $1,475,849 net decrease of construction work in progress reflects a decrease in the carrying balance of various construction projects in progress that have not been placed into service as of December 31, 2019, in addition to the projects that have been completed and closed out to capital assets.

Long Term Debt

	Beginning Balance 1/1/2019	Additions	Reductions	Ending Balance 12/31/2019	Due in 1 year	Long term portion
Water Revenue Bonds	$ 5,910,000	$ ---	$ (650,000)	$ 5,260,000	$ 665,000	$ 4,595,000
PWTF/DWSRF loans	16,619,850	---	(1,963,359)	14,656,491	1,963,359	12,693,132
SSP Repayment Agreements	18,900,467	---	(468,728)	18,431,739	488,311	17,943,428
TOTALS	**$ 41,430,317**	**$ ---**	**$ (3,082,087)**	**$ 38,348,230**	**$ 3,116,670**	**$ 35,231,560**

The district is required to establish, maintain and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. Although the bond covenant allows the use of connection charge revenue (i.e. cash capital contributions) in the calculation of debt service coverage, the district has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenues to bond debt service, without consideration of connection charge revenue. The board of commissioners debt coverage ratio, without considering connection charge revenue, was 7.03 for the year ended December 31, 2019. This indicates that the district is not only meeting the requirements mandated by the bond covenant, but also meets the more stringent and conservative internal policy. The less stringent calculation required by the bond covenants with connection charge revenue yields a ratio for the year ended December 31, 2019 of 10.34.

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

COVINGTON WATER DISTRICT
Statement of Net Position
December 31, 2019

ASSETS		
Current assets:		
Cash and cash equivalents - undesignated	$	29,328,271
Cash and cash equivalents - designated		4,474,311
Accounts receivable - customer		650,429
Accrued unbilled water charges		869,683
Accrued interest receivable		56,107
WD #111 Receivable, current portion		33,196
Restricted current assets:		
Rate Stabilization account		2,000,000
Water Revenue Bond account		655,409
Bond Sinking account		683,581
Accrued interest receivable - restricted		5,512
Developer Deposits		170,414
Inventory		204,394
Prepaid expenses		135,836
TOTAL CURRENT ASSETS		39,267,143
Noncurrent assets:		
Other accounts receivable		60,051
WD #111 Receivable, net of current portion		771,034
Capital assets not being depreciated:		
Land and land rights		1,482,399
Construction work in progress		3,422,784
Capital assets being depreciated:		
Utility Plant		194,613,597
Accumulated depreciation		(53,935,623)
TOTAL NONCURRENT ASSETS		146,414,242
TOTAL ASSETS	$	185,681,385
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	$	1,271
Deferred outflows related to pensions		327,456
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	328,727
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$	913,099
Accrued compensated absences		274,947
Accrued interest on bonds and loans payable		122,529
Water Revenue Bonds, current portion		665,000
PWTF/DWSRF loans, current portion		1,963,359
SSP repayment agreements, current portion		488,311
Developer deposits		170,414
TOTAL CURRENT LIABILITIES		4,597,659
Noncurrent liabilities:		
Water Revenue Bonds, net of current portion		4,595,000
PWTF/DWSRF loans, net of current portion		12,693,131
SSP repayment agreements, net of current portion		17,943,431
Net Pension Liability		1,191,550
OPEB Liability		1,213,541
TOTAL NONCURRENT LIABILITIES		37,636,653
TOTAL LIABILITIES	$	42,234,312
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding	$	1,805,175
Deferred inflows related to pensions		733,461
TOTAL DEFERRED INFLOWS OF RESOURCES	$	2,538,636
NET POSITION		
Net investment in capital assets	$	105,308,492
Restricted		3,344,502
Unrestricted		32,584,170
TOTAL NET POSITION	$	141,237,164

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

COVINGTON WATER DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the year ended December 31, 2019

Water service	$ 13,406,932
Street light revenue	211,418
Other operating revenue	509,878
TOTAL OPERATING REVENUE	14,128,228
OPERATING EXPENSES	
Total production costs-CWD water	422,024
Total purchased water	686,217
Operations Department	2,089,832
Engineering Department	576,209
Customer Service, Finance, and Information Technology	2,009,986
Administration	1,343,736
Street light expense	164,627
Taxes	651,183
Depreciation expense	4,431,366
TOTAL OPERATING EXPENSES	12,375,180
OPERATING INCOME (LOSS)	1,753,048
NONOPERATING REVENUES (EXPENSES)	
Interest income	779,578
Gain on Investments	-
Miscellaneous income	21,884
Gain (Loss) on capital asset disposition	(307,497)
Interest expense on debt financing	(941,302)
Amortized debt discounts	(7,623)
TOTAL NONOPERATING REVENUES (EXPENSES)	(454,960)
INCOME BEFORE CONTRIBUTIONS	1,298,088
Capital contributions:	
Meter installation charges	100,460
Connection charges	2,621,806
Donated capital assets	4,978,842
Total capital contributions	7,701,108
CHANGE IN NET POSITION	8,999,196
TOTAL NET POSITION, beginning	132,237,968
TOTAL NET POSITION, ending	$ 141,237,164

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

MCAG No. 2684

COVINGTON WATER DISTRICT

Statement of Cash Flows

For the year ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water customers, net of refunds, etc.	$	13,961,112
Receipts from non-water customers		158,657
Payments to suppliers		(2,370,606)
Payments related to employees (non-capitalized)		(5,426,782)
Payments related to business taxes		(651,183)
Other receipts (payments)		21,884
Net cash provided by operating activities		5,693,082
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of connection charges		2,705,039
Miscellaneous receipts (payments)		61,855
Principal and interest payment on PWTF & DWSRF loans		(2,117,401)
Principal and interest payment on Tacoma loans		(1,235,393)
Principal and interest payment on Water Revenue Bond		(822,148)
Purchase of capital assets (CIP)		1,475,849
Purchase of capital assets (CAA)		(2,994,213)
Other receipts		201,497
Net cash provided (used) by capital and related financing activities		(2,724,915)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		748,299
Net cash provided by investing activities		748,299
Net Increase (Decrease) in Cash		3,716,466
Balance, Beginning of Period		33,595,520
Balance, End of Period	$	37,311,986
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$	1,753,048
Adjustments to reconcile operating income to net cash provided (used) by operating income:		
Depreciation expense		4,431,366
Other nonoperating receipts (payments)		21,884
Change in assets and liabilities:		
Receivables		60,124
Inventory		(29,857)
Accrued & prepaid income/expenses		(543,483)
Net cash provided by operating activities	$	5,693,082
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH CAPITAL AND FINANCING TRANSACTIONS		
Developer contributions to utility plant	$	4,978,842

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Covington Water District (the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

Reporting Entity

The District is a municipal corporation governed by an elected five member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Uniform System of Accounts for Class A Water Utilities.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate accounts.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water delivery services. The District also recognizes street light revenue and other operating revenue as operating revenue. Operating expenses for the District include the related costs of water services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Unbilled utility service receivables are recorded monthly.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements.

The District implemented GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This statement addresses improving the consistency in the information that is disclosed in notes to the government financial statements related to debt, including direction borrowings and direct placements, and provides financial statement users with additional essential information about debt. The District reviewed all topics and implemented those applicable.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

See Note 3.

Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses described below.

Rate Stabilization Account

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

Water Revenue Bond Account

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

Bond Sinking Account

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

Receivables

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

Loan Draw Receivables

Loan draw receivables consists of receivables for draws on low interest loan agreements through the Public Works Trust Fund and Drinking Water State Revolving Fund loan programs to fund various capital improvement projects.

Inventories

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

Prepaid Expenses

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

Deferred Outflows

Deferred outflows consist of deferred losses on refunding that are being amortized over the remaining life of the debt, along with deferred outflows related to pensions.

Compensated Absences

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

Vacation Leave

Vacation leave, which may be accumulated up to six weeks (240 hours) is payable upon termination only after the first six months of employment has been completed.

Sick Leave

Regular full-time employees accrue sick leave benefits at the rate of eight hours for each calendar month of continuous employment up to a maximum of 320 hours of sick leave. Sick leave accruals for regular part time staff scheduled to work less than 40 hours per week is prorated. Sick leave accruals for temporary/intern/project/contract status employees will accrue sick leave at the rate of one hour for every 40 hours worked up to the maximum of 320 hours of leave.

There is a quarterly cash out of all sick leave into the HRA VEBA Trust which exceeds the following amounts:

Sick leave balance at end of the quarter:	Quarterly accrual cashed to HRA VEBA:
Balance of 100-199 hours	10% of the quarterly accrual (gross)
Balance of 200-319 hours	25% of the quarterly accrual (gross)
Balance of 320+ hours	100% of the quarterly accrual (gross)

Upon voluntary resignation, a portion of accrued sick leave will be cashed out into the HRA VEBA trust. The amount of leave to be cashed out is based upon the following sliding scale:

Years of cumulative service:	Percent of accrued sick hours:
10 years	25%
15 years	50%
20 years	75%
25 years	100%

Deferred Inflows

Deferred inflows of resources consist of deferred gains on refunding that are being amortized over the remaining life of the debt, along with deferred inflows related to pensions.

Revenues

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

Pensions

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

Reclassifications

Certain 2018 account balances may have been reclassified to conform to the 2019 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

NOTE 2 DEPOSITS AND INVESTMENTS

As allowed by state law, the District and King County entered into a formal interlocal agreement whereas King County Treasurer is the fiscal agent of the District and, as such, receives, disburses and invests funds for the District, at the District's request. All investments are insured, registered or held by the District or by its agent in the District's name.

The District is a participant of the County Treasurer's pooled investment program for the purpose of maximizing earnings on investments and at the same time assuring liquidity and safety. Under this program, available funds of the District are mostly invested in securities, bankers' acceptances, commercial paper, and certificates of deposit. Funds in the pooled investment program can be used for disbursements at any time. As of December 31, 2019 the pool's net asset fair value price per share was $1.0043.

Designated cash and cash equivalents were made up of the following at December 31:

Designated cash & cash equivalents:	**12/31/2019**
Asset Replacement	$ 3,974,311
Emergency Operations	500,000
TOTALS	**$ 4,474,311**

In accordance with state law, the District's governing body has entered into a formal interlocal agreement with the District's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2019, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$37,434,269	0.92 Years

Impaired Investments

As of December 31, 2019, all impaired commercial paper investments have completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in one commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is $23,692 and the District's fair value of these investments is $15,944.

Interest Rate Risk

As of December 31, 2019, the Pool's average duration was 0.92 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk

As of December 31, 2019, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSRO's), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual costs of more than $5,000, and an estimated useful life in excess of one year. Major expense for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. Capital assets in service are recorded at cost. Donations by developers are recorded at the contract price.
Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance 1/1/2019	Increases	Decreases	Ending Balance 12/31/2019
CAPITAL ASSETS, NOT BEING DEPRECIATED:				
Land and land rights	$ 1,482,399	---	$ ---	$ 1,482,399
Construction in progress	4,898,633	1,731,179	(3,207,028)	3,422,784
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	**6,381,032**	**1,731,179**	**(3,207,028)**	**4,905,183**
CAPITAL ASSETS, BEING DEPRECIATED:				
Utility plant	168,787,697	6,586,395	(758,457)	174,615,635
Buildings and improvements	12,041,539	983,795	(45,057)	12,980,277
Equipment	6,500,191	727,243	(209,749)	7,017,685
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	**187,329,427**	**8,297,433**	**(1,013,263)**	**194,613,597**
LESS ACCUMULATED DEPRECIATION FOR:				
Utility plant	(38,971,398)	(3,277,027)	449,563	(41,798,862)
Buildings and improvements	(7,490,598)	(583,307)	36,033	(8,037,872)
Equipment	(3,731,146)	(571,032)	203,289	(4,098,889)
TOTAL ACCUMULATED DEPRECIATION	**(50,193,142)**	**(4,431,366)**	**688,885**	**(53,935,623)**
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	**137,136,285**	**3,866,067**	**(324,378)**	**140,677,974**
TOTAL CAPITAL ASSETS, NET	**$ 143,517,317**	**$ 5,597,246**	**$ (3,531,406)**	**$ 145,583,157**

At such time as property is retired and removed from service, the original cost of the property is removed from the capital asset accounts. Accumulated depreciation related to the retired or sold property is charged and the net gain or loss on disposition is credited or charged to income.

During 2019, the District capitalized interest costs for funds borrowed to finance the construction/acquisition of capital assets. The total interest expense incurred by the District during 2019 was $0. Of this amount, none was included as part of the cost of capital assets under construction.

Preliminary costs incurred for Capital Improvement Projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant accounts and depreciation starts in the subsequent year. Charges related to abandoned projects are expensed. Initial depreciation of other capital assets not related to projects is recorded in the year subsequent to purchase.

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

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

The District has undivided interests in projects with another utility district. Each District was responsible for financing its share of construction. Each District is responsible for its proportionate share of on-going maintenance and operating costs. The following schedule shows the District's portion in each capital asset as included in the Statement of Net Position as of December 31, 2019:

Project	Ownership Interest	Completed Project
Covington Water District and Cedar River Water and Sewer District		
Four million gallon water storage tank, transmission mains, pumps and SCADA	67.2%	$ 1,781,736
Less: accumulated depreciation		(902,091)
Net book value		$ 879,645
Covington Water District and Cedar River Water and Sewer District		
West intertie vault, transmission mains and vault	50.0%	$ 22,266
Less: accumulated depreciation		(10,488)
Net book value		$ 11,778
Total Project Costs (Net Book Value)		**$ 891,423**

NOTE 4 CONSTRUCTION WORK-IN-PROGRESS

Construction Work-in-Progress represents expenses to date on projects whose authorizations total $8,049,345.

Construction Work-in-Progress is composed of the following at December 31, 2019:

	Project Authorization	Expended to 12/31/19	Committed	Required Future Financing
Capital Projects In Process	$ 8,049,345	$ 3,422,784	$ 4,626,561	$ ---

NOTE 5 LONG-TERM DEBT

Water Revenue Bonds

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

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

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

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

Water Revenue Bonds currently outstanding are as follows:

Name of Bond Issue	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/19	Amount Issued in 2019	Amount Redeemed in 2019	Ending Outstanding Debt 12/31/19
2013 Bonds	Capital Improvements & Refunding 2001 Water Revenue Bonds / $8,865,000	2013	2033	2-4%	$ 5,910,000	$ ---	($650,000)	$ 5,260,000
	TOTALS				**$ 5,910,000**	**$ ---**	**($650,000)**	**$ 5,260,000**

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

	Principal	Interest	Total
2020	$ 665,000	$ 154,923	$ 819,923
2021	290,000	141,504	431,504
2022	300,000	133,560	433,560
2023	310,000	124,410	434,410
2024	315,000	113,460	428,460
2025-2029	1,765,000	392,025	2,157,025
2030-2034	1,615,000	105,133	1,720,133
TOTAL	**$ 5,260,000**	**$ 1,165,015**	**$ 6,425,015**

Bond Covenant calculation for the year 2019:

Operating revenues	$ 14,128,228
Operating expenses*	(9,055,781)
Interest income (excluding restricted funds)	685,336
Miscellaneous income	21,884
Meter installation charges	100,459
Facility charges	2,621,806
Balance available for debt service	**$ 8,501,932**
Debt service	**$ 822,148**
Debt service ratio (minimum 1.25)	**10.34**

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

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

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

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

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/19	Amount Issued in 2019	Amount Redeemed in 2019	Ending Outstanding Debt 12/31/19
SSP	Capital Improvements / $7,000,000	2000	2020	1%	$ 745,512	---	$ (372,755)	$ 372,757
SSP	Capital Improvements / $10,000,000	2002	2022	0.50%	2,125,000	---	(531,250)	1,593,750
DWSRF-264th Well	Capital Improvements / $2,322,163	2002	2023	1.50%	725,676	---	(145,135)	580,541
DWSRF-Tank 5 Rechlorination	Capital Improvements / $548,250	2002	2023	1.50%	171,327	---	(34,266)	137,061
PWTF-Filtration	Capital Improvements / $10,000,000	2011	2031	0.50%	7,027,856	---	(540,604)	6,487,252
DWSRF-Filtration	Capital Improvements / $2,020,000	2011	2035	1.50%	1,694,178	---	(99,658)	1,594,520
DWSRF-222nd	Capital Improvements / $1,100,000	2012	2036	1.50%	999,900	---	(55,550)	944,350
DWSRF-Filtration	Capital Improvements / $6,060,000	2012	2036	1.50%	3,130,400	---	(184,141)	2,946,259
	TOTALS				**$ 16,619,849**	**$ ---**	**$ (1,963,359)**	**$ 14,656,491**

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

	Principal	Interest	Total
2020	$ 1,963,359	$ 135,758	$ 2,099,117
2021	1,590,605	118,973	1,709,578
2022	1,590,602	105,915	1,696,517
2023	1,059,355	92,857	1,152,212
2024	879,953	82,456	962,409
2025-2029	4,399,765	296,635	4,696,400
2030-2034	2,777,957	112,000	2,889,957
2035-2039	394,895	6,507	401,402
TOTAL	**$ 14,656,491**	**$951,101**	**$15,607,592**

Tacoma Repayment Agreement loans

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

2002 Second Supply Project Bond Issue

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

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

2010 Second Supply Project Bond Issue

In 2010, the City of Tacoma issued $44,245,000 of Regional Water Supply System (RWSS) Revenue Bonds to finance a portion of the costs of the Filtration Treatment Project for the Second Supply Project. The 2010 bonds issued are Build America Bonds (BABS) with a 35% government interest subsidy option. The District entered into a repayment agreement with the City of Tacoma in 2010 in the amount of $11,595,000 to fund a portion of its share of costs related to the project. The federal government budget sequestration cuts reduced the BABS subsidy through the year 2023. Amounts reflected for interest in the table below are net of the 35% government interest subsidy, with a reduction of 7.2% of the 35% subsidy through 2023.
Subsequent to the 2010 repayment agreement with the City of Tacoma, the District received additional DWSRF and PWTF low interest loans for use in funding its portion of the Filtration Treatment project. Therefore, the 2010 repayment agreement with the City of Tacoma was amended in 2013 to allocate $8,080,000 of the District's bond proceeds back to Tacoma to be used toward their portion of the project funding.

2011 Filtration Loan

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

Name of Debt	Purpose/ Original Issue Amount	Date of Original Issue	Date of Maturity	Interest Rate	Beginning Outstanding Debt 1/1/19	Amount Issued in 2019	Amount Redeemed in 2019	Ending Outstanding Debt 12/31/19
City of Tacoma SSP Repayment Agreement	Capital Improvements / $17,822,335	2002	2032	4%-5%	$13,192,500	$ ---	$(331,667)	$12,860,833
City of Tacoma SSP Repayment Agreement	Capital Improvements / $3,515,000	2010	2040	5.62%	3,515,000	---	---	3,515,000
City of Tacoma Filtration Loan	Capital Improvements / $2,727,000	2011	2034	1.50%	2,192,969	---	(137,061)	2,055,906
	TOTALS				**$18,900,469**	**$ ---**	**$(468,728)**	**$18,431,739**

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

	Principal	Interest	Total
2020	$ 488,311	$ 764,436	$ 1,252,747
2021	503,311	744,817	1,248,128
2022	518,727	724,449	1,243,176
2023	590,811	703,309	1,294,120
2024	1,186,645	673,587	1,860,232
2025-2029	6,775,717	2,495,594	9,271,311
2030-2034	5,638,217	987,819	6,626,036
2035-2039	2,235,000	341,434	2,576,434
2040-2044	495,000	18,082	513,082
TOTAL	**$ 18,431,739**	**$ 7,453,527**	**$25,885,266**

<u>Changes in Long-Term Liabilities</u>
During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

ID No.	Description	Beginning Balance 1/1/19	Additions	Reductions	Ending Balance 12/31/19	Due within one year
252.11	Water Revenue Bonds	$ 5,910,000	$ ---	$ (650,000)	$ 5,260,000	$ 665,000
263.82	PWTF/DWSRF Loans	16,619,850	---	(1,963,359)	14,656,491	1,963,359
263.82	SSP Repayment Agreements	18,900,467	---	(468,728)	18,431,739	488,311
	TOTALS	**$41,430,317**	**$ ---**	**$(3,082,087)**	**$38,348,230**	**$ 3,116,670**

The annual debt service requirements to maturity on all debts outstanding as of December 31, 2019 including interest are as follows:

Year	Principal	Interest	Total
2020	$ 3,116,670	$ 1,055,117	$ 4,171,787
2021	2,383,916	1,005,294	3,389,210
2022	2,409,329	963,924	3,373,253
2023	1,960,166	920,576	2,880,742
2024	2,381,598	869,503	3,251,101
2025-2029	12,940,482	3,184,254	16,124,736
2030-2034	10,031,174	1,204,952	11,236,126
2035-2039	2,629,895	347,941	2,977,836
2040-2044	495,000	18,082	513,082
TOTALS	**$ 38,348,230**	**$9,569,643**	**$47,917,873**

NOTE 6 RESTRICTED COMPONENT OF NET POSITION

The District's Statement of Net Position reports a restricted component of net position, which is restricted by enabling legislation for the following purposes as of December 31:

	12/31/19
Debt service	$ 1,341,054
Rate stabilization	2,003,448
TOTAL	**$ 3,344,502**

NOTE 7 PENSION PLAN

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ (1,191,549)
Pension assets	-
Deferred outflows of resources	327,456
Deferred inflows of resources	(733,459)
Pension expense/expenditures	35,314

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380
Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

The PERS Plan 1 member contribution rate is established by state statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

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

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

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

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

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

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

<u>Contributions</u>

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

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

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%

The District's actual PERS plan contributions were $167,459 to PERS Plan 1 and $261,767 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

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

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

- **Inflation**: 2.75% total economic inflation; 3.5% salary inflation
- **Salary increases**: In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return**: 7.4%

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

There were changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of $62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1 and TRS 1 plan liabilities). Based on these 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 1,125,215	$ 898,506	$ 701,805
PERS 2/3	2,247,528	293,043	(1,310,740)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the District reported a total pension liability of $1,191,549 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 898,506
PERS 2/3	293,043

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	.024305%	.023366%	(.000939%)
PERS 2/3	.031153%	.030169%	(.000984%)

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 for all plans except LEOFF 1.

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

Pension Expense

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

	Pension Expense
PERS 1	$ (2,035)
PERS 2/3	37,349
TOTAL	**$ 35,314**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

	Deferred Outflows of Resources			Deferred Inflows of Resources		
Plan Name	**PERS 1**	**PERS 2/3**	**Total**	**PERS 1**	**PERS 2/3**	**Total**
Differences between expected and actual experience	$ ---	$ 83,958	$ 83,958	$ ---	$ 63,003	$ 63,003
Net difference between projected and actual investment earnings on pension plan investments	---	---	---	60,028	426,552	486,580
Changes of assumptions	---	7,504	7,504	---	122,951	122,951
Changes in proportion and differences between contributions and proportionate share of contributions	---	17,850	17,850	---	60,925	60,925
Contributions subsequent to the measurement date	81,859	136,286	218,145	---	---	---
TOTAL	**$ 81,859**	**$ 245,597**	**$ 327,456**	**$ 60,028**	**$ 673,431**	**$ 733,459**

Deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3	Total
2020	$ (13,251)	$ (142,073)	$ (155,324)
2021	(31,389)	(227,028)	(258,417)
2022	(11,201)	(105,195)	(116,396)
2023	(4,186)	(60,068)	(64,254)
2024	---	(27,371)	(27,371)
Thereafter	---	(2,385)	(2,385)

NOTE 8 DEFERRED COMPENSATION PLAN

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

The Deferred Compensation Plan provides for a maximum annual contribution of $19,000. In addition, participants may be eligible for a catch-up contribution which would increase the maximum to $24,000. The District employees' total deferred compensation plan contribution for the year 2019 was $134,668. Total employees' actual deferred contribution since joining the plan is $1,344,895.

NOTE 9 REGIONAL WATER SUPPLY SYSTEM

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

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

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

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks including, but not limited to, damage to personal and real property, general liability, automotive liability, theft, public officials’ errors and omissions, and natural disasters. To protect itself against these risks, the District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer Districts in the

State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$275,000,000 (D)
Flood	See (A) below	See (A) below	$50,000,000
Earthquake	See (B) below	See (B) below	$110,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood, $5,000,000 dedicated to Sammamish Plateau, and $5,000,000 dedicated to Cascade Water Alliance)
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000-$25,000	$25,000	$15,000,000
Liability:			
Commercial General Liability	$1,000 - $25,000	$200,000, 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
Other:			
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			

D. In 2017 Covington Water District secured property insurance coverage specific to certain underground segments of pipes with a total insurable value of approximately $3.78M.

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

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

NOTE 11 DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2019:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$ 1,213,541
OPEB expenses/expenditures	$ 26,852

OPEB Plan Description

The District is a participating employer in the state of Washington's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides other post-employment benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. The District had 39 active plan members and 1 retired plan member as of December 31, 2019. The District payments were $4,779 to the plan for the year ended December 31, 2019.

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

	1% Decrease (5.8%)	Current Healthcare Cost Trend Rate (6.8%)	1% Increase (7.8%)
Total OPEB Liability	$947,481	$1,213,541	$1,575,145

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

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	$1,505,696	$1,213,541	$987,863

<u>Changes in the Total OPEB Liability</u>

PEBB	
Total OPEB Liability at 01/01/2019	$ 1,186,689
Service cost	78,627
Interest	48,876
Changes in Experience Data & Assumptions	(95,872)
Changes of benefit terms	---
Benefit payments	(4,779)
Other changes	---
Total OPEB Liability at 12/31/2019	$ 1,213,541

The District recognized OPEB expense for the years ended December 31, 2019 as follows:

Service Cost	$78,627
Interest Cost	48,876
Changes in Experience Data & Assumptions	(95,872)
Total OPEB Expense	**$31,631**

The alternative measurement was based on the following methods and assumptions:

Methodology	
Actuarial Valuation Date	6/30/2019
Actuarial Measurement Date	6/30/2019
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Asset Valuation Method	N/A (No Assets)
Assumptions	
Discount Rate*	
Beginning of Measurement Year	3.87%
End of Measurement Year	3.50%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates	Initial rate is approximately 7%, trends down to about 5% in 2020
Mortality Rates	
Base Mortality Table	Healthy RP-2000
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%
*Source: Bond Buyer General Obligation 20-Bond Municipal Index	

NOTE 12 SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The District is considered an essential service, and as such is operating with increased safety measures in place to continue to provide safe, reliable drinking water to our customers while protecting employee health and safety. The District passed resolutions 4409 and 4410 and March 24, 2020, declaring an emergency relating to the COVID-19 virus, which allows the General Manager and staff to take actions including but not limited to activating the Incident Command System under the District's Emergency Response Plan to develop and implement mitigation measures related to COVID-19.

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2019

Public Employees' Retirement System Plan 1

		2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.023366%	0.024305%	0.023781%	0.024848%	0.027160%
Employer's proportionate share of the net pension liability	$	898,506	1,085,470	1,128,427	1,334,455	1,420,721
Covered payroll	$	3,286,444	3,229,974	3,004,802	2,965,587	3,027,537
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	27.34%	33.61%	37.55%	45.00%	46.93%
Plan fiduciary net position as a percentage of the total pension liability	%	67.12%	63.22%	61.24%	57.03%	59.10%

Public Employees' Retirement System Plan 2/3

		2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.030169%	0.031153%	0.030554%	0.031740%	0.033333%
Employer's proportionate share of the net pension liability	$	293,044	531,910	1,061,605	1,598,084	1,191,007
Covered payroll	$	3,286,444	3,227,124	3,002,180	2,962,053	2,960,140
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	8.92%	16.48%	35.36%	53.95%	40.23%
Plan fiduciary net position as a percentage of the total pension liability	%	97.77%	95.77%	90.97%	85.82%	89.20%

Notes to schedule:

1. Until a full 10-year trend is compiled, governments should present information only for those years for which information is available. GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.
2. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

COVINGTON WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Employer Contributions
As of December 31, 2019

Public Employees' Retirement System Plan 1

		2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	167,459	164,484	153,948	140,442	130,198
Contributions in relation to the statutorily or contractually required contributions	$	(167,459)	(164,484)	(153,948)	(140,442)	(130,198)
Contribution deficiency (excess)	$	0	0	0	0	0
Covered payroll	$	3,393,444	3,245,998	3,137,785	2,940,565	2,961,043
Contributions as a percentage of covered payroll	%	4.93%	5.07%	4.91%	4.78%	4.40%

Public Employees' Retirement System Plan 2/3

		2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	261,767	243,519	215,555	183,020	166,612
Contributions in relation to the statutorily or contractually required contributions	$	(261,767)	(243,519)	(215,555)	(183,020)	(166,612)
Contribution deficiency (excess)	$	0	0	0	0	0
Covered payroll	$	3,393,444	3,244,516	3,135,049	2,937,715	2,956,465
Contributions as a percentage of covered payroll	%	7.71%	7.51%	6.88%	6.23%	5.64%

Notes to schedule:

1. Until a full 10-year trend is compiled, governments should present information only for those years for which information is available. GASB 68 was implemented for the year ended December 31, 2015, therefore there is no data available for years prior to 2014.
2. Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).
3. Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 contributions that fund PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, par .8).

COVINGTON WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios

For the year ended June 30, 2019

PEBB

	2019	2018
Total OPEB liability - beginning	$ 1,186,689	$ 1,131,025
Service cost	78,627	95,966
Interest	48,876	43,888
Changes in benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	(95,872)	(82,034)
Benefit payments	(4,779)	(2,156)
Other changes		
Total OPEB liability - ending	1,213,541	1,186,689
Covered-employee payroll**	3,453,740	3,229,225
Total OPEB liability as a % of covered payroll	35.14%	36.75%

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.