To the Board of Commissioners

Highland Water District

Monroe, Washington

Management is responsible for the accompanying financial statements of Highland Water District, which comprise the statement of net position as of December 31, 2020 and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 1 through 4 and the pension plan information on Schedule I be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis and, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

C.P. McAuliffe, C.P.A.

C.P. McAuliffe, C.P.A., P.S.

Certified Public Accountants

March 26, 2021

Highland Water District

Table of Contents

December 31, 2020

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Page

Accountant’s Report

Management’s Discussion and Analysis 1 - 4

Statement of Net Position 5 - 6

Statement of Revenues, Expenses and Changes in Fund Net Position 7

Statement of Cash Flows 8 - 9

Notes to Financial Statements 10 - 22

Supplementary Information 23

**Brief Discussion of the Basic Financial Statements**

The District’s financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management’s discussion and analysis is to provide highlights of the District’s financial activities for the year ended December 31, 2020. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

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

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

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

**Condensed Comparative Statement of Net Position**

The following condensed statements of net position present an overview of the District’s financial position as of December 31, 2020 and 2019.

2020 2019

**Assets**

Current Assets $ 2,433,866 $ 2,282,337

Noncurrent Assets:

Capital Assets - Net 8,363,391 8,261,720

Other 300,842 314,256

Total Assets $ 11,098,099 $ 10,858,313

**Liabilities**

Current Liabilities $ 377,144 $ 418,171

Noncurrent Liabilities:

Long-Term Debt 3,306,900 3,547,577

Other 12,195 14,016

Total Liabilities $ 3,696,239 $ 3,979,764

**Net Position**

Net Investment in Capital Assets $ 4,785,901 $ 4,434,509

Restricted for Debt Service 209,384 205,663

Restricted for Capital Projects - -

Unrestricted 2,406,575 2,238,377

Total Net Position $ 7,401,860 $ 6,878,549

**Analysis of the Condensed Comparative Statement of Net Position**

Assets

Current assets consist of cash and cash equivalents held in the maintenance and construction funds which are unrestricted and can be used for day-to-day operations. The balance held in these funds increased by $128,816 in 2020. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts increased by $1,384 in 2020. The remainder of the current assets include accounts receivable, other receivables, accrued interest receivable, prepaid expenses, inventories, and the current portion of the Friar Creek assessments receivable. Together these accounts increased by $22,717 in 2020.

Noncurrent Assets include U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items decreased by $13,414 due to the principal collections received in 2020. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts increased by $101,671 primarily due to a developer extension contributed to the District, offset by depreciation expense.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt, developer deposits, developer maintenance bonds payable, and the current portion of long-term debt. These items decreased by $41,027 in 2020 mainly due to a decrease in accounts payable - maintenance and a decrease in the current portion of long-term debt. Maintenance and capital improvement accounts payable vary from year to year based on the timing of invoices received from vendors and on the capital projects underway at the time.

Noncurrent Liabilities consist of compensated absences and long-term debt. Long-term debt decreased by $249,721 in 2020. This decrease was due to required payments of principal during the year. The District did not incur any additional long-term debt during the year.

Net Position consists of assets minus liabilities. The increase in net position for 2020 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District’s net position indicate the District’s overall financial growth. The increase in net position is a positive sign of the District’s financial strength.

**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position**

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

2020 2019

**Revenues**

Water Operating Revenue $ 1,281,879 $ 1,323,763

Nonoperating Revenues 25,333 48,338

Total Revenues $ 1,307,212 $ 1,372,101

**Expenses**

Operating Expenses $ 989,075 $ 934,281

Nonoperating Expenses 141,149 146,589

Total Expenses $ 1,130,224 $ 1,080,870

Change in Net Position before

Capital Contributions $ 176,988 $ 291,231

Capital Contributions 346,323 672,058

Change in Net Position $ 523,311 $ 963,289

**Total Net Position, January 1** 6,878,549 5,915,260

**Total Net Position, December 31** $ 7,401,860 $ 6,878,549

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

Revenues

Water operating revenue decreased by $41,884 in 2020 mainly due to the refund of a local facility charge of $34,000 to a developer, as well as a decrease in penalties due to the COVID-19 policies. Nonoperating revenue is made up of interest income and gains and losses on the disposal of assets. Interest income from investments decreased by $23,005. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District’s investments.

Expenses

Operating expenses increased by $54,794 in 2020 mainly due to an increase of $24,031 in water purchases, an increase in system maintenance and supplies of $17,601, and an increase of $10,276 in general & administrative expenses. Water purchases increased because of an increase in customers, as well as customers at home more than usual due to COVID-19. System maintenance and supplies varies from year to year based on maintenance requirement. General & administrative expenses increased due to small increases in many accounts such as building maintenance and accounting. The painting of the office in 2020 increased building maintenance expense. Accounting expense increased due to an increase in the state auditor’s fee for the annual audit.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $5,400 in 2020 due to decreasing outstanding loan balances through 2020 as the District paid down its debt. No new borrowings occurred in 2020.

Capital Contributions decreased by $325,735 in 2020 due to a decrease in general facility charges of $306,705 due to two developer extension agreements and a number of new services in 2019.

Change in Net Position

The District recorded growth in their net position in 2020, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2020 with adequate liquid assets and positive operating cash flow.

**Capital Assets**

Capital assets consist of land, utility plant and equipment. Over the next five years it is anticipated that capital spending will be in the range of $2,517,000. The area of major emphasis in the capital budget is the Woods Lake Road replacement project.

Capital assets activity for the year ended December 31, 2020 was as follows:

Balance Balance

12/31/20 12/31/19 Change

Land $ 99,147 $ 99,147 $ -

Utility Plant 12,011,587 11,726,765 284,822

Equipment 101,699 96,029 5,670

Intangibles 106,193 89,763 16,430

Accumulated Depreciation (3,955,235) (3,749,984) (205,251)

Total Capital Assets, Net $ 8,363,391 $ 8,261,720 $ 101,671

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2020, the District had total Public Works Trust Fund loans outstanding of $439,853, and total United States Department of Agriculture loans outstanding of $3,107,727. The total long-term debt of the District decreased by $249,721 during 2020 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

2020

ASSETS

Current Assets

Cash & Cash Equivalents $ 1,979,456

Accrued Interest Receivable 193

Assessments Receivable - Friar Creek (Current Portion) 11,765

Receivables (Net):

Customer Accounts Receivable 110,794

Other Receivables 16,479

Restricted Assets:

Cash & Cash Equivalents 268,478

Accrued Interest Receivable 988

Inventories 26,715

Prepayments 13,952

Due from Developers 5,046

Total Current Assets $ 2,433,866

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 295,414

Restricted Assets:

U.L.I.D. Assessments Receivable 5,428

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 12,011,587

Equipment 101,699

Intangibles 106,193

Less Accumulated Depreciation (3,955,235)

Total Noncurrent Assets $ 8,664,233

Total Assets $ 11,098,099

2020

LIABILITIES

Current Liabilities

Accounts Payable - Maintenance $ 28,144

Accounts Payable - Capital Improvements 2,211

Accrued Wages 9,060

Accrued Interest Payable 1,629

Current Portion of Long-Term Debt 240,680

Developer Maintenance Bond Payable 29,910

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 65,510

Total Current Liabilities $ 377,144

Noncurrent Liabilities

Department of Agriculture Loans $ 3,002,824

Public Works Trust Fund Loans 304,076

Compensated Absences 12,195

Total Noncurrent Liabilities $ 3,319,095

Total Liabilities $ 3,696,239

NET POSITION

Net Investment in Capital Assets $ 4,785,901

Restricted for Debt Service 209,384

Unrestricted 2,406,575

Total Net Position $ 7,401,860

2020

Operating Revenues

Water Sales $ 1,293,369

Local Facility Charges (16,700)

Penalties 3,180

Miscellaneous Revenue 2,030

Total Operating Revenues $ 1,281,879

Operating Expenses

Water Purchases $ 253,068

Labor Costs 198,965

Payroll Taxes & Benefits 63,076

System Maintenance and Supplies 42,142

Other Operating Expenses 21,722

Depreciation Expense 209,251

Business Taxes 66,733

General & Administrative Expenses 134,118

Total Operating Expenses $ 989,075

Operating Income (Loss) $ 292,804

Nonoperating Revenues (Expenses)

Interest on Investments $ 25,333

Interest Expense (141,149)

Total Nonoperating Revenues (Expenses) $ (115,816)

Income Before Contributions $ 176,988

Capital Contributions 346,323

Change in Net Position $ 523,311

Total Net Position, January 1 6,878,549

Total Net Position, December 31 $ 7,401,860

2020

Cash Flows From Operating Activities

Cash Received From Customers $ 1,263,724

Cash Paid to Suppliers (562,301)

Cash Paid to Employees (246,683)

Net Cash Provided by Operating Activities $ 454,740

Cash Flows From Capital & Related

Financing Activities

Acquisition and Construction of Capital Assets $ (22,100)

Principal Payments on Public Works

Trust Fund Loans (149,350)

Principal Payments on Dept. of Agriculture Loans (100,371)

Interest Paid on Long-Term Debt (144,183)

Capital Contributions 70,320

Developer & Other Deposits (6,432)

Net Cash (Used) by Capital

& Related Financing Activities $ (352,116)

Cash Flows From Investing Activities

Interest Received on Investments $ 27,576

Net Cash Provided by Investing Activities $ 27,576

Net Increase in Cash & Cash Equivalents $ 130,200

Cash & Cash Equivalents at Beginning of Year 2,117,734

Cash & Cash Equivalents at End of Year $ 2,247,934

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ 288,823

Book Value of Plant Removals $ -

2020

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 292,804

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 209,251

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (1,676)

(Increase) Decrease in Other Receivable (16,479)

(Increase) Decrease in Prepayments 14

(Increase) Decrease in Inventories 209

Increase (Decrease) in Accounts Payable - Maintenance (30,033)

Increase (Decrease) in Accounts Payable - Capital Improvements 2,211

Increase (Decrease) in Accrued Wages Payable 260

Increase (Decrease) in Vested Benefits (1,821)

Total Adjustments $ 161,936

Net Cash Provided by Operating Activities $ 454,740

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Highland Water District is a municipal water district governed by an elected 3 member board. The District operates principally as a purveyor of water in Snohomish County, Washington. The District was formed effective April 1, 1998 under the authority of Highland Water District Resolution No. 98-001, after the Snohomish County Canvassing Board certified that the special election held March 10, 1998 overwhelmingly voted for the formation of Highland Water District. The District merged with the Friar Creek Water Users Association on January 9, 2003. As part of the merger agreement, the properties in the Friar Creek Water Users Association will bear the total expense for, and repayment of, the U.S. Department of Agriculture Rural Development loan to Highland Water District for the new system and additional fire protection. 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.

b. 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 water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

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 funds. Unbilled utility service receivables are recorded at year end. All activities of the District are accounted for within a single proprietary (enterprise) fund.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services and include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. 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.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Capital assets placed in service are recorded at cost. The District uses a capitalization threshold of $1,000. The provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3-10 years; Plant, 5-75 years; Intangibles, 5-10 years. Donations by developers are recorded at the contract price. The assets and liabilities of the Highland Water Association were transferred to the District on April 1, 1998. The costs associated with the formation of the District have been capitalized.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects that are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service requirements.

f. Receivables

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

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at cost which generally approximates market value. See Note 2.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Compensated Absences

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

j. Subsequent Events

Management has evaluated subsequent events through March 26, 2021.

NOTE 2 - DEPOSITS & INVESTMENTS

The District’s deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are under the management of the Snohomish County Treasurer. As required by state law, all investments of the District’s funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer’s Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions.

The District’s cash and investment balances at year end are shown below. Carrying amount and market value are the same.

12/31/20

Petty Cash Fund $ 449

Bank Deposit Accounts - FDIC Insured 267,866

Cash on Deposit with Snohomish

County Treasurer 58,255

Investment in Local Governmental

Investment Pool (LGIP) 1,921,364

Total Cash & Investments $ 2,247,934

Credit risk - As of December 31, 2020, the District’s investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk - The Pool is a 2a-7 like pool. Consequently, the District’s investments in the Pool are not subject to interest rate risk as the weighted average maturity of the Pool’s portfolio will not exceed 90 days.

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

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

**Investments in Local Government Investment Pool (LGIP)**

The District is a participant in the Local Governmental Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts the rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually, and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

**Investments Measured at Fair Value**

The District measures and reports investments at fair market value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

* Level 1: Quoted prices in active markets for identical assets or liabilities;
* Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
* Level 3: Unobservable inputs for an asset or liability.

At December 31, 2020, the District had the following investments measured at fair value:

* Investments in Local Governmental Investment Pool are valued using quoted market prices

(Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2020 was as follows:

Beginning Ending

Balance Increase Decrease Balance

Capital assets not being depreciated:

Land $ 99,147 $ - $ - $ 99,147

Total capital assets not

being depreciated 99,147 - - 99,147

Capital assets being depreciated:

Plant 11,726,765 288,822 (4,000) 12,011,587

Equipment 96,029 5,670 - 101,699

Intangibles 89,763 16,430 - 106,193

Total capital assets being

depreciated 11,912,557 310,922 (4,000) 12,219,479

Less accumulated depreciation for:

Plant 3,610,365 191,964 (4,000) 3,798,329

Equipment 63,430 5,298 - 68,728

Intangibles 76,189 11,989 - 88,178

Total accumulated

depreciation 3,749,984 209,251 (4,000) 3,955,235

Total capital assets being

depreciated, net 8,162,573 101,671 - 8,264,244

TOTAL CAPITAL

ASSETS, NET $ 8,261,720 $ 101,671 $ - $ 8,363,391

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total $2,517,197. Of the committed balance of $2,517,197, the District anticipates raising $1,737,197 by future DWSRF loans.

Project Expended Required

Authorization to 12/31/20 Committed Future Financing

127th St SE Pipe Replace. $ 600,000 $ - $ 600,000 $ -

Telemetry & Security 150,000 - 150,000 -

Woods Lake Rd project 1,767,197 - 1,767,197 1,737,197

$ 2,517,197 $ - $ 2,517,197 $ 1,737,197

NOTE 5 - LONG-TERM DEBT

a. Notes from Direct Borrowings

The District has entered into agreements with the United States Department of Agriculture to receive the following loans:

2020

1996 loan - payable at $1,826 monthly (including

interest at 5.5% per annum) through the year 2036

Original debt: $353,858 for main replacement. $ 228,116

2003 loan - payable at $29,858 annually (including

interest at 4.625% per annum) through the year 2027

Original debt: $471,530 for main replacement. 164,165

2003 loan - payable at $27,016 annually (including

interest at 4.5% per annum) through the year 2023

Original debt: $355,503 for main replacement. 51,710

2009 loan - payable at $161,551 annually (including

interest at 4.25% per annum) through the year 2049

Original debt: $3,051,000 for main replacement. 2,663,736

$ 3,107,727

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2020, including interest, are as follows:

Principal Interest Total

2021 $ 104,903 $ 135,434 $ 240,337

2022 109,641 130,696 240,337

2023 88,853 125,744 214,597

2024 91,597 121,724 213,321

2025 95,743 117,578 213,321

2026 - 2030 436,821 525,146 961,967

2031 - 2035 492,064 425,251 917,315

2036 - 2040 501,828 316,607 818,435

2041 - 2045 604,954 202,801 807,755

2046 - 2049 581,323 62,929 644,252

$ 3,107,727 $ 2,163,910 $ 5,271,637

NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

2020

2002 loan - payable at $73,786 annually through

the year 2022, plus interest at .5% per annum

Original debt: $1,530,000 for main replacement $ 147,571

2004 loan - payable at $17,671 annually through

the year 2024, plus interest at .5% per annum

Original debt: $335,750 for Reservoir 2 preconstruction 70,684

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 70,610

2005 loan - payable at $30,197 annually through

the year 2025, plus interest at .5% per annum

Original debt: $573,750 for Reservoir 2 150,988

$ 439,853

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2020, including interest, are as follows:

Principal Interest Total

2021 $ 135,776 $ 3,258 $ 139,034

2022 135,776 2,368 138,144

2023 61,990 1,477 63,467

2024 61,990 955 62,945

2025 44,321 433 44,754

$ 439,853 $ 8,491 $ 448,344

NOTE 5 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Liabilities

During the year ended December 31, 2020, the following changes occurred in long-term liabilities:

Balance Balance Due Within

1/1/20 Additions Reductions 12/31/20 One Year

Notes from Direct

Borrowings $ 3,208,098 $ - $ (100,371) $ 3,107,727 $ 104,903

Public Works Trust

Fund Loans 589,203 - (149,350) 439,853 135,776

Compensated

Absences 14,016 - (1,821) 12,195 -

Total Long-Term

Liabilities $ 3,811,317 $ - $ (251,542) $ 3,559,775 $ 240,679

NOTE 6 - PENSION PLAN

All District employees covered by a collective bargaining agreement are members of the Western Conference of Teamsters Pension Trust fund, a cost-sharing multiple employer union pension plan. The plan provides for retirement, death and/or termination benefits for eligible employees, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in this multiemployer plan are different from a single-employer plan in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If the District chooses to stop participating in the plan, the District may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

NOTE 6 - PENSION PLAN (Continued)

Effective January 1, 2020, the District made pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all three covered employees at the rate of $1.00 per hour for the first 2,080 hours. In addition to the $1.00 per hour contributed by the District, the covered employees contributed $1.75 per hour on a pre-tax basis from their pay. The District’s total contributions to the Trust Fund were $6,240 in 2020, $6,240 in 2019, and $6,240 in 2018. The District contributed 100% of the required amount in each of these years. There is no unfunded liability on the District’s part. The collective bargaining agreement covered the period of January 1, 2018 through December 31, 2020. The District has entered into a new collective bargaining agreement covering January 1, 2021 through December 31, 2023.

As of January 1, 2019, the actuarial value of the assets in the Pension Trust fund was $41,549,049,000, the value of the liabilities was $44,822,315,000 and the funded ratio was 92.7%. The market value of the fund on December 31, 2019 was $45,735,383,721. As of December 31, 2019, the allocation of the fund’s assets was as follow: 44.1% Stocks, 26.1% Investment grade debt instruments, 7.5% High-yield debt instruments, 9.3% Real Estate, 13% Other.

NOTE 7 - RISK MANAGEMENT

Water and Sewer Risk Management Pool

On September 1, 2020, the District became 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: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Employment Practices Liability; Cyber Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an “occurrence” basis.

NOTE 7 - RISK MANAGEMENT (Continued)

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 |
| 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, $10,000,000 dedicated to Sammamish Plateau) |
| Terrorism | $1,000 - $25,000 | $25,000  Primary layer | $700,000,000  Primary layer |
| Boiler & Machinery | $1,000 - $350,000  depending on object | $25,000 - $350,000  depending on object | $100,000,000 |
| Auto - Physical Damage | $1,000 - $25,000 | $25,000 | Replacement Value Coverage |
|  |  |  |  |
| **Liability:** |  |  |  |
| Commercial General Liability | $1,000 - $25,000 | $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 |
| **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. | | | |

NOTE 7 - 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, 2021, written notice must be in the 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.

Enduris

For the period of January - August 2020, the District was a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2020, there were 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

* $1,000,000 self-insured retention on liability loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.

NOTE 7 - RISK MANAGEMENT (Continued)

* $250,000 self-insured retention on property loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first $4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $800 million per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool’s members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

Enduris did not have an claim settlements that exceeded the limits in the last 3 years.

For years ending December 31, 2018, 2019, and 2020, the District had no claims in excess of its insurance coverage.

NOTE 8 - USE OF ESTIMATES

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

NOTE 9 - COVID-19 PANDEMIC

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 included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The District implemented a temporary policy of not shutting off delinquent services. This policy will be in effect through July of 2021, and possibly longer if the Commissioners motion to extend it. Also, the District will not be adding late fees through July of 2021, and possibly later. The District spent $1,793 on COVID related cleaning supplies in 2020.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

SUPPLEMENTARY INFORMATION



**Notes to Supplementary Schedule I**

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2: Changes of Benefit Terms

There were no changes of benefit terms for the pension plan.