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, 2021 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 29, 2022

Highland Water District

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December 31, 2021

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**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, 2021. 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, 2021 and 2020.

 2021 2020

**Assets**

Current Assets $ 1,843,676 $ 2,433,866

Noncurrent Assets:

 Capital Assets - Net 8,746,494 8,363,391

 Other 281,936 300,842

 Total Assets $ 10,872,106 $ 11,098,099

**Liabilities**

Current Liabilities $ 347,023 $ 377,144

Noncurrent Liabilities:

 Long-Term Debt 2,851,901 3,306,900

 Other 14,738 12,195

 Total Liabilities $ 3,213,662 $ 3,696,239

**Net Position**

Net Investment in Capital Assets $ 5,662,651 $ 4,785,901

Restricted for Debt Service 181,903 209,384

Restricted for Capital Projects - -

Unrestricted 1,813,890 2,406,575

 Total Net Position $ 7,658,444 $ 7,401,860

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

Assets

Current assets consist of cash and cash equivalents held in the general and construction funds which are unrestricted and can be used for day-to-day operations. The balance held in these funds decreased by $561,371 in 2021. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts decreased by $29,198 in 2021. 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 $379 in 2021.

Noncurrent Assets include U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items decreased by $18,906 due to the principal collections received in 2021. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts increased by $383,103 primarily due to an increase in construction in progress, 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 $30,121 in 2021 mainly due to a decrease in the current portion of long-term debt, offset by an increase in accounts payable - general. General 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 $486,211 in 2021. This decrease was due to required payments of principal during the year, as well as the early payoff of two USDA loans. 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 2021 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):

 2021 2020

**Revenues**

Water Operating Revenue $ 1,389,830 $ 1,281,879

Nonoperating Revenues 17,187 25,333

 Total Revenues $ 1,407,017 $ 1,307,212

**Expenses**

Operating Expenses $ 1,061,587 $ 989,075

Nonoperating Expenses 135,096 141,149

 Total Expenses $ 1,196,683 $ 1,130,224

 Change in Net Position before

 Capital Contributions $ 210,334 $ 176,988

Capital Contributions 46,250 346,323

 Change in Net Position $ 256,584 $ 523,311

**Total Net Position, January 1** 7,401,860 6,878,549

**Total Net Position, December 31** $ 7,658,444 $ 7,401,860

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

Revenues

Water operating revenue increased by $107,951 in 2021 mainly due to warmer weather in 2021 and an increase in customers, as well as 2020 revenue being reduced by the refund of a local facility charge of $34,000 to a developer. Nonoperating revenue is made up of interest income and gains and losses on the disposal of assets. Interest income from investments decreased by $8,146. 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 $72,512 in 2021. Water purchases increased by $27,283, mainly due to warmer weather and an increase in customers. Labor costs, payroll taxes and benefits increased by $40,458, partly due to the addition of a staff member during the transition as the office manager retires.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $6,053 in 2021 due to decreasing outstanding loan balances through 2021 as the District paid down its debt. No new borrowings occurred in 2021.

Capital Contributions decreased by $300,073 in 2021, mainly due to a decrease in developer contributions of $288,823.

Change in Net Position

The District recorded growth in their net position in 2021, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2021 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 $1,964,000. The areas of major emphasis in the capital budget are the Woods Lake Road replacement project, as well as the office roof and replacing old lines, telemetry, and meters.

Capital assets activity for the year ended December 31, 2021 was as follows:

 Balance Balance

 12/31/21 12/31/20 Change

 Land $ 99,147 $ 99,147 $ -

 Construction in Progress 553,150 - 553,150

 Utility Plant 12,010,787 12,011,587 (800)

 Equipment 137,896 101,699 36,197

 Intangibles 106,193 106,193 -

 Accumulated Depreciation (4,160,679) (3,955,235) (205,444)

 Total Capital Assets, Net $ 8,746,494 $ 8,363,391 $ 383,103

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2021, the District had total Public Works Trust Fund loans outstanding of $304,076, and total United States Department of Agriculture loans outstanding of $2,757,293. The total long-term debt of the District decreased by $486,211 during 2021 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

 2021

ASSETS

Current Assets

 Cash & Cash Equivalents $ 1,418,085

 Accrued Interest Receivable 193

 Assessments Receivable - Friar Creek (Current Portion) 12,056

 Receivables (Net):

 Customer Accounts Receivable 102,431

 Other Receivables 17,465

 Restricted Assets:

 Cash & Cash Equivalents 239,280

 Accrued Interest Receivable 977

 Inventories 31,477

 Prepayments 20,875

 Due from Developers 837

 Total Current Assets $ 1,843,676

Noncurrent Assets

 Assessments Receivable - Friar Creek (Less Current Portion) $ 276,508

 Restricted Assets:

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

 Capital Assets Not Being Depreciated

 Land and Land Rights 99,147

 Construction in Progress 553,150

 Capital Assets Being Depreciated

 Plant 12,010,787

 Equipment 137,896

 Intangibles 106,193

 Less Accumulated Depreciation (4,160,679)

 Total Noncurrent Assets $ 9,028,430

 Total Assets $ 10,872,106

 2021

LIABILITIES

Current Liabilities

 Accounts Payable - General $ 38,576

 Accrued Wages 11,539

 Accrued Interest Payable 1,184

 Current Portion of Long-Term Debt 209,468

 Payables from Restricted Assets:

 Accrued Interest Payable - USDA Loans 63,782

 Retainage 22,474

 Total Current Liabilities $ 347,023

Noncurrent Liabilities

 Department of Agriculture Loans $ 2,683,601

 Public Works Trust Fund Loans 168,300

 Compensated Absences 14,738

 Total Noncurrent Liabilities $ 2,866,639

 Total Liabilities $ 3,213,662

NET POSITION

 Net Investment in Capital Assets $ 5,662,651

 Restricted for Debt Service 181,903

 Unrestricted 1,813,890

 Total Net Position $ 7,658,444

 2021

Operating Revenues

 Water Sales $ 1,375,371

 Local Facility Charges 9,700

 Penalties 3,055

 Miscellaneous Revenue 1,704

 Total Operating Revenues $ 1,389,830

Operating Expenses

 Water Purchases $ 280,351

 Labor Costs 229,721

 Payroll Taxes & Benefits 72,778

 System Maintenance and Supplies 32,747

 Other Operating Expenses 30,462

 Depreciation Expense 206,245

 Business Taxes 70,921

 General & Administrative Expenses 138,362

 Total Operating Expenses $ 1,061,587

 Operating Income (Loss) $ 328,243

Nonoperating Revenues (Expenses)

 Interest on Investments $ 17,187

 Interest Expense (135,096)

 Total Nonoperating Revenues (Expenses) $ (117,909)

 Income Before Contributions $ 210,334

Capital Contributions 46,250

 Change in Net Position $ 256,584

Total Net Position, January 1 7,401,860

Total Net Position, December 31 $ 7,658,444

 2021

Cash Flows From Operating Activities

 Cash Received From Customers $ 1,397,207

 Cash Paid to Suppliers (571,350)

 Cash Paid to Employees (282,435)

 Net Cash Provided by Operating Activities $ 543,422

Cash Flows From Capital & Related

Financing Activities

 Acquisition and Construction of Capital Assets $ (566,874)

 Principal Payments on Public Works

 Trust Fund Loans (135,777)

 Principal Payments on Dept. of Agriculture Loans (350,434)

 Interest Paid on Long-Term Debt (137,268)

 Capital Contributions 64,865

 Developer & Other Deposits (25,701)

 Net Cash (Used) by Capital

 & Related Financing Activities $ (1,151,189)

Cash Flows From Investing Activities

 Interest Received on Investments $ 17,198

 Net Cash Provided by Investing Activities $ 17,198

Net Increase (Decrease) in Cash & Cash Equivalents $ (590,569)

Cash & Cash Equivalents at Beginning of Year 2,247,934

Cash & Cash Equivalents at End of Year $ 1,657,365

Noncash Investing, Capital and Financing Activities

 Contributions of Capital Assets from Developers $ -

 Book Value of Plant Removals $ -

 2021

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

 Net Operating Income (Loss) $ 328,243

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 206,245

Change in Assets & Liabilities:

 (Increase) Decrease in Customer Accounts Receivable 8,362

 (Increase) Decrease in Other Receivable (986)

 (Increase) Decrease in Prepayments (6,923)

 (Increase) Decrease in Inventories (4,762)

 Increase (Decrease) in Accounts Payable - General 10,432

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

 Increase (Decrease) in Accrued Wages Payable 2,479

 Increase (Decrease) in Vested Benefits 2,543

 Total Adjustments $ 215,179

 Net Cash Provided by Operating Activities $ 543,422

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’s financial statements are prepared using the economic resources measurement focus and 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 29, 2022.

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.

 12/31/21

 Petty Cash Fund $ 392

 Bank Deposit Accounts - FDIC Insured 317,880

 Cash on Deposit with Snohomish

 County Treasurer 45,790

 Investment in Local Governmental

 Investment Pool (LGIP) 1,293,303

 Total Cash & Investments $ 1,657,365

 Credit risk - As of December 31, 2021, 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, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

 The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at 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, 2021, 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, 2021 was as follows:

 Beginning Ending

 Balance Increase Decrease Balance

Capital assets not being depreciated:

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

 Construction in Progress - 553,150 - 553,150

Total capital assets not

 being depreciated 99,147 553,150 - 652,297

Capital assets being depreciated:

 Plant 12,011,587 - (800) 12,010,787

 Equipment 101,699 36,197 - 137,896

 Intangibles 106,193 - - 106,193

Total capital assets being

 depreciated 12,219,479 36,197 (800) 12,254,876

Less accumulated depreciation for:

 Plant 3,798,329 191,721 (800) 3,989,250

 Equipment 68,728 7,524 - 76,252

 Intangibles 88,178 6,999 - 95,177

Total accumulated

 depreciation 3,955,235 206,244 (800) 4,160,679

Total capital assets being

 depreciated, net 8,264,244 (170,047) - 8,094,197

TOTAL CAPITAL

 ASSETS, NET $ 8,363,391 $ 383,103 $ - $ 8,746,494

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 $1,964,047, the District anticipates raising $1,737,197 by future DWSRF loans.

 Project Expended Required

 Authorization to 12/31/21 Committed Future Financing

127th St SE Pipe Replace. $ 600,000 $ 553,150 $ 46,850 $ -

Telemetry & Security 150,000 - 150,000 -

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

 $ 2,517,197 $ 553,150 $ 1,964,047 $ 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:

 2021

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. $ 141,899

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. 2,615,394

 $ 2,757,293

The annual requirements to amortize all notes from direct borrowings outstanding as of December 31, 2021, including interest, are as follows:

 Principal Interest Total

 2022 $ 73,692 $ 117,717 $ 191,409

 2023 76,911 114,498 191,409

 2024 80,271 111,138 191,409

 2025 83,778 107,631 191,409

 2026 87,439 103,970 191,409

 2027 - 2031 351,937 470,611 822,548

 2032 - 2036 415,947 391,808 807,755

 2037 - 2041 512,174 295,581 807,755

 2042 - 2046 630,664 177,091 807,755

 2047 - 2049 444,480 38,223 482,703

 $ 2,757,293 $ 1,928,268 $ 4,685,561

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:

 2021

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 $ 73,786

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 53,013

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 56,488

2005 loan - payable at $30,197 annually through

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

Original debt: $573,750 for Reservoir 2 120,789

 $ 304,076

 The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2021, including interest, are as follows:

 Principal Interest Total

 2022 $ 135,776 $ 2,368 $ 138,144

 2023 61,990 1,477 63,467

 2024 61,990 955 62,945

 2025 44,320 433 44,753

 $ 304,076 $ 5,233 $ 309,309

NOTE 5 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Liabilities

 During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

 Balance Balance Due Within

 1/1/21 Additions Reductions 12/31/21 One Year

 Notes from Direct

 Borrowings $ 3,107,727 $ - $ (350,434) $ 2,757,293 $ 73,692

 Public Works Trust

 Fund Loans 439,853 - (135,777) 304,076 135,776

 Compensated

 Absences 12,195 2,543 - 14,738 -

 Total Long-Term

 Liabilities $ 3,559,775 $ 2,543 $ (486,211) $ 3,076,107 $ 209,468

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, 2021, 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 $1.25 per hour for the first 2,080 hours. In addition to the $1.25 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 $8,580 in 2021, $6,240 in 2020, and $6,240 in 2019. 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 covers the period of January 1, 2021 through December 31, 2023.

 As of January 1, 2020, the actuarial value of the assets in the Pension Trust fund was $43,600,984,000, the value of the liabilities was $47,393,483,000 and the funded ratio was 92.0%. The market value of the fund on December 31, 2020 was $49,897,231,973. As of December 31, 2020, the allocation of the fund’s assets was as follow: 46.9% Stocks, 23.1% Investment grade debt instruments, 9.1% High-yield debt instruments, 8.0% Real Estate, 12.9% Other.

NOTE 7 - RISK MANAGEMENT

Water and Sewer Risk Management Pool

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

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: 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 andSee (C) below | $25,000 | $275,000,000 |
| Flood | See (A) below | See (A) below | $25,000,000 |
| Earthquake | See (B) below | See (B) below | $110,000,000($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 | $25,000Primary layer | $700,000,000Primary layer |
| Boiler & Machinery | $1,000 - $350,000depending on object | $25,000 - $350,000depending on object | $100,000,000 |
| Auto - Physical Damage | $1,000 - $25,000 | $25,000 |  |
|  |  |  |  |
| **Liability:** |  |  |  |
| Commercial General Liability | $1,000 - $25,000 | $500,000 | $10,000,000 |
| Auto Liability | $1,000 - $25,000 | Same as above | $10,000,000 |
| Public Officials Errorsand Omissions | $1,000 - $25,000 | Same as above | $10,000,000 |
| Employment Practices | $1,000 - $25,000 | Same as above | $10,000,000 |
| **Other:** |  |  |  |
| Cyber Liability | $50,000 | N/A | $2,000,000 |
| Public Officials Bonds | Various | N/A | Various |
| Crime | $1,000 - $25,000 | $25,000 | $2,000,000 |
| Identity Fraud | $0 | $0 | $25,000 |
| A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible, per occurrence, in Flood Zones A&V. |
| B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum. |
| C. Member deductible for Cyber liability is $50,000 and where applicable the dollar amount of the business interruption loss during the policy’s required 8 hour waiting period. |

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, 2022, written notice must be in the possession of the Pool by April 30, 2022). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

For years ending December 31, 2019, 2020, and 2021, 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 COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

 The District implemented a temporary policy of not shutting off delinquent services and not adding late fees. These policies were in effect through August of 2021. The District reinstated the original shut off and late fee policies in September of 2021. Customers were allowed to set up payment arrangements over six months if needed. The District spent approximately $100 on COVID related supplies in 2021.

 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

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