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, 2022 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

May 28, 2023

Highland Water District

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December 31, 2022

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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, 2022. 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, 2022 and 2021.

2022 2021

**Assets**

Current Assets $ 2,088,867 $ 1,843,676

Noncurrent Assets:

Capital Assets - Net 8,537,682 8,746,495

Other 256,940 281,935

Total Assets $ 10,883,489 $ 10,872,106

**Liabilities**

Current Liabilities $ 316,069 $ 347,023

Noncurrent Liabilities:

Long-Term Debt 2,713,000 2,851,901

Other 8,991 14,738

Total Liabilities $ 3,038,060 $ 3,213,662

**Net Position**

Net Investment in Capital Assets $ 5,663,306 $ 5,662,651

Restricted for Debt Service 145,347 181,903

Restricted for Capital Projects - -

Unrestricted 2,036,776 1,813,890

Total Net Position $ 7,845,429 $ 7,658,444

**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 increased by $291,788 in 2022. 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 $34,929 in 2022. 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 decreased by $11,668 in 2022.

Noncurrent Assets include assessments receivable for Friar Creek, net of the current portion. This, plus the ULID assessments receivable that were paid off in 2022, decreased by $24,996 due to the principal collections received in 2022. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts decreased by $208,813 due to 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 $30,954 in 2022 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. The noncurrent portion of long-term debt decreased by $138,901 in 2022. 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 2022 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):

2022 2021

**Revenues**

Water Operating Revenue $ 1,409,822 $ 1,389,830

Nonoperating Revenues 29,735 17,187

Total Revenues $ 1,439,557 $ 1,407,017

**Expenses**

Operating Expenses $ 1,174,885 $ 1,061,587

Nonoperating Expenses 115,587 135,096

Total Expenses $ 1,290,472 $ 1,196,683

Change in Net Position before

Capital Contributions $ 149,085 $ 210,334

Capital Contributions 37,900 46,250

Change in Net Position $ 186,985 $ 256,584

**Total Net Position, January 1** 7,658,444 7,401,860

**Total Net Position, December 31** $ 7,845,429 $ 7,658,444

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

Revenues

Water operating revenue increased by $19,992 in 2022 mainly due to a rate increase effective January 1, 2022. Nonoperating revenue is made up of interest income and gains and losses on the disposal of assets. Interest income from investments increased by $12,548. 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 $113,298 in 2022. Labor costs, payroll taxes and benefits increased by $24,769, partly due to an additional staff member during the transition as the office manager retired. System maintenance and supplies increased by $43,620 due to an increase in repairs, as well as the purchase of meters. General and administrative expense increased by $53,919 mainly due to rate study expenses of $50,646.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $19,509 in 2022 due to decreasing outstanding loan balances through 2022 as the District paid down its debt. No new borrowings occurred in 2022.

Capital Contributions decreased by $8,350 in 2022, mainly due to a decrease in general facilities charges of $8,600.

Change in Net Position

The District recorded growth in their net position in 2022, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2022 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 $1,917,000. The areas of major emphasis in the capital budget are the Woods Lake Road replacement project, as well as replacing old lines, telemetry, and meters.

Capital assets activity for the year ended December 31, 2022 was as follows:

Balance Balance

12/31/22 12/31/21 Change

Land $ 99,147 $ 99,147 $ -

Construction in Progress - 553,150 (553,150)

Utility Plant 12,562,438 12,010,788 551,650

Equipment 137,896 137,896 -

Intangibles 46,313 106,193 (59,880)

Accumulated Depreciation (4,308,112) (4,160,679) (147,433)

Total Capital Assets, Net $ 8,537,682 $ 8,746,495 $ (208,813)

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2022, the District had total Public Works Trust Fund loans outstanding of $168,300, and total United States Department of Agriculture loans outstanding of $2,683,602. The total long-term debt of the District decreased by $209,467 during 2022 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

2022

ASSETS

Current Assets

Cash & Cash Equivalents $ 1,709,873

Accrued Interest Receivable 4,589

Assessments Receivable - Friar Creek (Current Portion) 12,345

Receivables (Net):

Customer Accounts Receivable 104,039

Restricted Assets:

Cash & Cash Equivalents 204,351

Accrued Interest Receivable 725

Inventories 29,789

Prepayments 22,319

Due from Developers 837

Total Current Assets $ 2,088,867

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 256,940

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 12,562,438

Equipment 137,896

Intangibles 46,313

Less Accumulated Depreciation (4,308,112)

Total Noncurrent Assets $ 8,794,622

Total Assets $ 10,883,489

2022

LIABILITIES

Current Liabilities

Accounts Payable - General $ 76,872

Accounts Payable - Capital Improvements 8,344

Accrued Wages 9,009

Accrued Interest Payable 739

Current Portion of Long-Term Debt 138,902

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 59,729

Retainage 22,474

Total Current Liabilities $ 316,069

Noncurrent Liabilities

Department of Agriculture Loans $ 2,606,690

Public Works Trust Fund Loans 106,310

Compensated Absences 8,991

Total Noncurrent Liabilities $ 2,721,991

Total Liabilities $ 3,038,060

NET POSITION

Net Investment in Capital Assets $ 5,663,306

Restricted for Debt Service 145,347

Unrestricted 2,036,776

Total Net Position $ 7,845,429

2022

Operating Revenues

Water Sales $ 1,385,740

Local Facility Charges 10,800

Penalties 10,700

Miscellaneous Revenue 2,582

Total Operating Revenues $ 1,409,822

Operating Expenses

Water Purchases $ 267,769

Labor Costs 252,341

Payroll Taxes & Benefits 74,927

System Maintenance and Supplies 76,367

Other Operating Expenses 28,829

Depreciation Expense 208,813

Business Taxes 73,558

General & Administrative Expenses 192,281

Total Operating Expenses $ 1,174,885

Operating Income (Loss) $ 234,937

Nonoperating Revenues (Expenses)

Interest on Investments $ 29,735

Interest Expense (115,587)

Total Nonoperating Revenues (Expenses) $ (85,852)

Income Before Contributions $ 149,085

Capital Contributions 37,900

Change in Net Position $ 186,985

Total Net Position, January 1 7,658,444

Total Net Position, December 31 $ 7,845,429

2022

Cash Flows From Operating Activities

Cash Received From Customers $ 1,425,679

Cash Paid to Suppliers (634,517)

Cash Paid to Employees (292,948)

Net Cash Provided by Operating Activities $ 498,214

Cash Flows From Capital & Related

Financing Activities

Acquisition and Construction of Capital Assets $ (2)

Principal Payments on Public Works

Trust Fund Loans (135,776)

Principal Payments on Dept. of Agriculture Loans (73,691)

Interest Paid on Long-Term Debt (120,084)

Capital Contributions 62,607

Net Cash (Used) by Capital

& Related Financing Activities $ (266,946)

Cash Flows From Investing Activities

Interest Received on Investments $ 25,591

Net Cash Provided by Investing Activities $ 25,591

Net Increase (Decrease) in Cash & Cash Equivalents $ 256,859

Cash & Cash Equivalents at Beginning of Year 1,657,365

Cash & Cash Equivalents at End of Year $ 1,914,224

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

Book Value of Plant Removals $ -

2022

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 234,937

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 208,813

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (1,608)

(Increase) Decrease in Other Receivable 17,465

(Increase) Decrease in Prepayments (1,444)

(Increase) Decrease in Inventories 1,688

Increase (Decrease) in Accounts Payable - General 38,296

Increase (Decrease) in Accounts Payable - Capital Improvements 8,344

Increase (Decrease) in Accrued Wages Payable (2,530)

Increase (Decrease) in Vested Benefits (5,747)

Total Adjustments $ 263,277

Net Cash Provided by Operating Activities $ 498,214

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 May 28, 2023.

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.

12/31/22

Petty Cash Fund $ 437

Bank Deposit Accounts - FDIC Insured 257,838

Cash on Deposit with Snohomish

County Treasurer 54,843

Investment in Local Governmental

Investment Pool (LGIP) 1,315,349

Investment in Snohomish County

Investment Pool (SCIP) 285,757

Total Cash & Investments $ 1,914,224

Credit risk - As of December 31, 2022, the District’s investments in the Pools were not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk - Interest rate risk is the risk the District may face should interest rate variances affect the fair value of the investments. The District does not have a formal policy that addresses interest rate risk.

The LGIP 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 60 days.

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

15% of the SCIP Pool portfolio is comprised of investments maturing within one year. Remaining funds may be invested in securities not to exceed five years in maturity.

**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 in Snohomish County Investment Pool (SCIP)**

The District is a participant in the Snohomish County Investment Pool, an external investment pool operated by the Snohomish Country Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the Snohomish County Finance Committee in accordance with RCW 36.29.020. Investments in the SCIP are reported at fair market value. Participants will not withdraw and deposit funds into the pool for speculative purposes as such actions may negatively impact other participants in the pool, hence, withdrawals from the pool are to be made only for planned operating and capital expenditures.

**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, 2022, 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)

* Investments in Snohomish County Investment Pool are valued using quoted market prices.

(Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2022 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 652,297 - (553,150) 99,147

Capital assets being depreciated:

Plant 12,010,788 553,150 (1,500) 12,562,438

Equipment 137,896 - - 137,896

Intangibles 106,193 - (59,880) 46,313

Total capital assets being

depreciated 12,254,877 553,150 (61,380) 12,746,647

Less accumulated depreciation for:

Plant 3,989,250 194,941 (1,500) 4,182,691

Equipment 76,252 9,428 - 85,680

Intangibles 95,177 4,444 (59,880) 39,741

Total accumulated

depreciation 4,160,679 208,813 (61,380) 4,308,112

Total capital assets being

depreciated, net 8,094,198 344,337 - 8,438,535

TOTAL CAPITAL

ASSETS, NET $ 8,746,495 $ 344,337 $ (553,150) $ 8,537,682

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total $1,917,197. Of the committed balance of $1,917,197, the District anticipates raising $1,737,197 by future DWSRF loans.

Project Expended Required

Authorization to 12/31/22 Committed Future Financing

Telemetry & Security $ 150,000 $ - $ 150,000 $ -

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

$ 1,917,197 $ - $ 1,917,197 $ 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:

2022

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. $ 118,604

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. 2,564,998

$ 2,683,602

The annual requirements to amortize all notes from direct borrowings outstanding as of December 31, 2022, including interest, are as follows:

Principal Interest Total

2023 $ 76,912 $ 114,497 $ 191,409

2024 80,271 111,138 191,409

2025 83,778 107,631 191,409

2026 87,439 103,970 191,409

2027 76,195 100,149 176,344

2028 - 2032 352,155 455,600 807,755

2033 - 2037 433,624 374,131 807,755

2038 - 2042 533,942 273,813 807,755

2043 - 2047 657,467 150,288 807,755

2048 - 2049 301,819 19,334 321,153

$ 2,683,602 $ 1,810,551 $ 4,494,153

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:

2022

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 $ 35,342

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 90,592

2005 loan - payable at $30,197 annually through

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

Original debt: $573,750 for Reservoir 2 42,366

$ 168,300

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2022, including interest, are as follows:

Principal Interest Total

2023 $ 61,990 $ 1,477 $ 63,467

2024 61,990 955 62,945

2025 44,320 433 44,753

$ 168,300 $ 2,865 $ 171,165

NOTE 5 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Liabilities

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

Balance Balance Due Within

1/1/22 Additions Reductions 12/31/22 One Year

Notes from Direct

Borrowings $ 2,757,293 $ - $ (73,691) $ 2,683,602 $ 76,912

Public Works Trust

Fund Loans 304,076 - (135,776) 168,300 61,990

Compensated

Absences 14,738 - (5,747) 8,991 -

Total Long-Term

Liabilities $ 3,076,107 $ - $ (215,214) $ 2,860,893 $ 138,902

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, 2022, the District made pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all four covered employees at the rate of $1.50 per hour for the first 2,080 hours. In addition to the $1.50 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 $10,746 in 2022, $8,580 in 2021, and $6,240 in 2020. 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, 2022, the actuarial value of the assets in the Pension Trust fund was $50,943,160,000, the value of the liabilities was $51,996,745,000 and the funded ratio was 98.0%. The market value of the fund on December 31, 2022 was $50,692,796,491. As of December 31, 2022, the allocation of the fund’s assets was as follow: 41.2% Stocks, 19.6% Investment grade debt instruments, 11.2% High-yield debt instruments, 9.5% Real Estate, 18.5% 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 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; 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 | $20,000,000 |
| Earthquake | See (B) below | See (B) below | $100,000,000  ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood) |
| 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 | $500,000 | $10,000,000 |
| Auto Liability | $1,000 - $25,000 | Same as above | $10,000,000 |
| Public Officials Errors  and Omissions | $1,000 - $25,000 | Same as above | $10,000,000 |
| Employment Practices | $1,000 - $25,000 | Same as above | $10,000,000 |
| **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, 2020, 2021, and 2022, 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.

SUPPLEMENTARY INFORMATION



**Notes to Supplementary Schedule I**

Note 1

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