



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Alderwood Water and Wastewater
District

For the period January 1, 2019 through December 31, 2019

Published July 23, 2020

Report No. 1026610





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

July 23, 2020

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

Report on Financial Statements

Please find attached our report on the Alderwood Water and Wastewater District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The District did not have adequate controls over financial statement preparation in the prior period to detect and prevent misstatements.

Background

District management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. The District prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Our audit identified a restatement of previously issued financial statements to reflect the correction of a material misstatement, which indicates a material weakness in internal controls.

Government Auditing Standards requires that the auditor communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

As a response to a prior audit recommendation, the District performed an in-depth review of its capital asset balances and identified the following items that it reported in a prior-period adjustment:

- The District included nine assets, worth a total of about \$7.25 million that were capitalized as part of a project completed with a city. The District became aware the City had the right to the assets and subsequently removed the assets from its asset listing.
- The District included 27 assets, worth a total of about \$6.7 million that were capitalized but did not meet the District's capital asset threshold at the time they were added.

The District also identified and corrected two errors involving loan origination fees and revenue recognition for wholesale water sales.

Cause of Condition

While evaluating prior audit recommendations, the District evaluated capital asset reporting and identified errors that occurred when the assets were originally recorded and not identified by the controls in place at the time. The District did not have a process in place to review items previously reported on a regular basis.

Effect of Condition

As a result of identifying the misstatements noted above, the District over reported it's ending net position in the prior year by \$14,218,088. The District recorded this adjustment as a prior-period adjustment.

Recommendation

We recommend the District continue to ensure it has adequate internal controls in place over capital assets, including the re-evaluation of any estimates, to ensure they are accurately reported.

District's Response

The District agrees with the SAO and will continue to exercise adequate internal controls over the addition of capital assets and re-evaluation of any estimates to ensure they are accurately reported.

Auditor's Remarks

We appreciate the steps the District is taking to address this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraphs 7 and 11.

Governmental Accounting Standards Board Statement 62, paragraphs 60-62, 72 establish reporting requirements for prior period adjustments.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Alderwood Water and Wastewater District
January 1, 2019 through December 31, 2019**

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 20, 2020.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy
State Auditor
Olympia, WA

July 20, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Alderwood Water and Wastewater District January 1, 2019 through December 31, 2019

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alderwood Water and Wastewater District, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 12 be presented to supplement the basic financial statements. Such information, although not a 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 for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy
State Auditor
Olympia, WA

July 20, 2020

FINANCIAL SECTION

Alderwood Water and Wastewater District January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 – 2019

Schedule of Employer Contributions – PERS 1 – 2019

Schedule of Proportionate Share of Net Pension Liability – PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 2/3 – 2019

Management's Discussion and Analysis

As management of the District we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2019. This should be read in conjunction with the financial statements, notes to the financial statements, and required supplementary information which follows this discussion.

Financial Highlights

- For the year ending December 31, 2019, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$497.5 million. Of this amount, 19.3% or \$96.1 million is unrestricted net position and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets, \$393.4 million or 79.1%, and restricted for debt service payments and reserves, \$7.4 million or 1.5%.
- As of the end of 2019, the District's total net position increased by \$39.9 million or 8.4% from the prior year.
- The District completed an internal rate study of water and wastewater rates in 2019. The Board of Commissioners adopted annual rate increases of 2% for water and 5%, 5%, and 4.5% for 2020-2022 in wastewater. Information regarding the District's water and wastewater rates are available on the District's website - www.awwd.com.

Overview of the Financial Statements

The District presents three basic financial statements:

- **Statement of Net Position**
- **Statement of Revenues, Expenses, and Changes in Net Position**
- **Statement of Cash Flows**

The **Statement of Net Position** presents detailed information on all of the District's assets, liabilities, and deferred outflows/inflows of resources. The difference between the sum of total assets and deferred outflows of resources and the sum of total liabilities and deferred inflows of resources is represented as net position. This statement reports all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of December 31, 2019. It is like taking a "financial photograph" of the District on December 31, 2019.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents twelve months' worth of revenue and expenses beginning January 1, 2019 and ending December 31, 2019. This statement, in part, measures the success of the District's operations to collect enough revenue to pay for the costs of providing water and wastewater services. It also reports other non-operating revenue and expenses such as investment interest income, bond interest expense, and capital contributions.

The **Statement of Cash Flows** reports cash receipts and cash payments in several categories such as cash flows from operations, capital financing, and investing. In total these activities explain the changes that have occurred in the District's cash.

Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees. The Comprehensive Annual Financial Report (CAFR) also includes a Statistical Section, which provides more details about the District.

Financial Position

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations. There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use. Capital assets have continued to increase as new connections have been added to our water and wastewater systems and significant investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

Alderwood Water and Wastewater District's Net Position

	2019	Restated 2018	Increase (Decrease)	% Change
Current and other assets	\$ 120,473,491	\$ 121,680,206	\$ (1,206,715)	(1.0)%
Capital assets, net	478,014,552	440,627,181	37,387,371	8.5%
Total assets	598,488,043	562,307,387	36,180,656	6.4%
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Total deferred outflows of resources	1,233,968	1,107,352	126,616	11.4%
Current liabilities	15,392,098	11,558,858	3,833,240	33.2%
Long-term liabilities	84,470,662	91,546,407	(7,075,745)	(7.7)%
Total liabilities	99,862,760	103,105,265	(3,242,505)	(3.1)%
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Total deferred inflows of resources	2,380,741	2,104,581	276,160	13.1%
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Net investment in capital assets	393,366,283	349,502,851	43,863,432	12.6%
Restricted for debt service	7,432,500	7,894,003	(461,503)	(5.8)%
Restricted for interlocal agreements	617,634	0	617,634	100.0%
Unrestricted	96,062,091	100,211,395	(4,149,304)	(4.1)%
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Total net position	\$ 497,478,508	\$ 457,608,249	\$ 39,870,259	8.7%

Analysis of the Statement of Net Position

- Decrease of current assets of approximately \$1.2 million was due to a planned use of cash for capital projects in 2019. The District had two large capital projects under construction in 2019: Picnic Point Wastewater Treatment Facility Membrane Replacements and Reservoir #2 & #3 Recoating. Expenses for these projects totaled \$10.2 million in 2019.
- Capital assets consist of land; construction in progress; plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The \$37.4 million increase in net capital assets is primarily due to assets contributed by developers through system extensions in the amount of \$22.1 million. The remaining is due to construction-in-progress, largely due to the Membrane Replacement project listed above.
- The 33.2% increase in current liabilities was mostly due to the change in accounts payable. The accounts payable balance is cyclical and is related to timing of board meetings and payment schedules.
- Changes in long-term liabilities reflect the scheduled reduction of debt due to annual principal payments.

Alderwood Water and Wastewater changes in net position

	2019	Restated 2018	Increase (Decrease)	% Change
Total operating revenue	\$ 89,568,419	\$ 88,760,417	\$ 808,002	0.9%
Interest and investment revenue	4,014,914	2,901,955	1,112,959	38.4%
Other nonoperating revenue	190,654	179,103	11,551	6.4%
Total revenues	93,773,987	91,841,475	1,932,512	2.1%
Total operating expenses	90,882,344	87,287,676	3,594,668	4.1%
Nonoperating expenses	3,922,823	19,544,487	(15,621,664)	(79.9)%
Total expenses	94,805,167	106,832,163	(12,026,996)	(11.3)%
Income before cap. contributions	(1,031,180)	(14,990,688)	13,959,508	(93.1)%
Capital contributions	40,901,439	18,789,327	22,112,112	117.7%
Change in net position	39,870,259	3,798,639	36,071,620	949.6%
Beginning net position	457,608,249	453,809,610	3,798,639	0.8%
Ending net position	\$ 497,478,508	\$ 457,608,249	\$ 39,870,259	8.7%

Analysis of the Statement of Revenues, Expenses, and Changes in Net Position

- Total revenue increased by 2.1% in 2019, this is due to a combination of rate increases and higher interest rates on investments.
- The 4.1% increase in operating expenses is attributable to increased rates in both purchased water and purchased wastewater treatment.
- The 79.9% decrease in nonoperating expenses is due to an accounting change of the capital asset threshold from \$5,000 to \$25,000.

- Capital contributions are general facility charges (GFC) revenues and developer-contributed assets. These assets are donated to the District once the new development is complete and approved by the District. In 2019 the District began using a unit price method to more accurately represent the value of assets donated through development instead of relying on information from developers. The new unit price methodology increased capital contributions by 117.7%.
- The result of the accounting changes of capital asset threshold change and the developer contribution methodology resulted in the 949.6% increase in change in net position.

Alderwood Water and Wastewater District's Capital Assets

	2019	Restated 2018	Increase (Decrease)	% Change
Land	\$ 1,041,092	1,041,092	\$ (0)	\$ (0)
Construction-in-progress	29,890,025	21,206,547	8,683,478	40.9%
Total assets not depreciated	30,931,117	22,247,639	8,683,478	39.0%
Plant	170,170,895	161,654,214	8,516,681	5.3%
Distribution and collection systems	435,131,129	401,563,582	33,567,547	8.4%
Machinery and equipment	28,636,797	28,192,124	444,673	1.6%
Total assets being depreciated	633,938,821	591,409,920	42,528,901	7.2%
Less accumulated depreciation	(186,855,386)	(173,030,379)	(13,825,007)	8.0%
Total assets	\$ 478,014,552	\$ 440,627,180	\$ 37,387,372	8.5%

Analysis of Changes in Capital Assets

Capital assets being depreciated increased \$42.5 million from 2018 to 2019. This was mostly made up of:

- \$33.6 million net increase to distribution and collection systems. The majority of this is from developer contributions.
- Construction-in-progress increased \$8.7 million. This is the combination of completing projects in 2019 and significant work on the Membrane Replacement Project and Recoating of Reservoirs #2 & #3.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 3, and 4.
- In accordance with the new threshold of \$25,000, the District removed 117 assets that did not meet this threshold from the fixed asset ledger. This resulted in a prior period adjustment in the amount of \$630,215.
- An additional 27 assets were identified as consisting of individual assets that did not meet the previous asset threshold of \$5,000. This resulted in a prior period adjustment of \$6,371,192.
- Nine assets were identified as being property of the City of Everett. These were originally booked as Alderwood assets based on the work the District performed. Removing these assets resulted in a prior period adjustment of \$7,250,252.

Alderwood Water and Wastewater District's Long-term debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$83.9 million; the net decrease of \$5.8 million is a result of normal principal payments and new draws on State Revolving Fund loans. The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. has assigned a rating of "Aa2". In April 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 6 to the Financial Statements.

	2019	Restated 2018
Public Works Trust Fund Loans	\$ 3,388,503	\$ 4,136,504
State Revolving Fund Loans	13,593,082	14,476,896
Bond Obligations	66,895,000	71,175,000
Total	\$ 83,876,585	\$ 89,788,400

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Alderwood Water and Wastewater District, 3626 – 156th St. SW, Lynnwood, WA 98087.

ALDERWOOD WATER & WASTEWATER DISTRICT

Statement of Net Position

December 31, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 16,606,869
Investments	78,874,465
Receivables, net	13,590,420
Interest receivable	485,729
Inventories	950,108
Prepaid items	730,044
Total current assets	<u>111,237,635</u>

Noncurrent Assets:

Restricted investments	8,050,134
Deposits with fiscal agent/trustee	300,177
Assessments receivable	67,370
Long-term receivables	818,175

Capital Assets:

Land	1,041,092
Construction-in-progress	29,890,025
Plant	170,170,895
Distribution and collection systems	435,131,129
Machinery and equipment	28,636,797
Less accumulated depreciation	(186,855,386)
Total noncurrent assets	<u>487,250,408</u>

Total assets	<u>598,488,043</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	1,233,968
Total deferred outflows of resources	<u>1,233,968</u>

LIABILITIES

Current liabilities:

Accounts payable	6,468,406
Accrued wages and benefits	417,845
Compensated absences	364,180
Customer deposits	2,232,639
Bonds, notes, and loans payable	5,909,028
Total current liabilities	<u>15,392,098</u>

Noncurrent liabilities:

Bonds, notes, and loans payable	78,739,241
Compensated absences	1,092,538
Accrued interest	373,197
Net pension liability	4,265,686
Total noncurrent liabilities	<u>84,470,662</u>

Total liabilities	<u>99,862,760</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,380,741
Total deferred inflows of resources	<u>2,380,741</u>

NET POSITION

Net investment in capital assets	393,366,283
Restricted for debt service	7,432,500
Restricted for interlocal agreements	617,634
Unrestricted	96,062,091
Total net position	<u>\$ 497,478,508</u>

ALDERWOOD WATER & WASTEWATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2019

Operating revenues:	
Water charges for services	\$ 39,152,298
Wastewater charges for services	49,401,108
Other charges for services	1,015,013
Total operating revenues	<u>89,568,419</u>
Operating expenses:	
Personnel services	16,526,776
Supplies and services	10,008,241
Purchased water	17,701,255
Purchased wastewater	29,535,669
Depreciation	15,381,489
Taxes	1,728,914
Total operating expenses	<u>90,882,344</u>
Operating income (loss)	<u>(1,313,925)</u>
Nonoperating revenues (expenses):	
Investment earnings	4,014,914
Rental income	136,923
Miscellaneous revenue	53,731
Gain (loss) on disposition of asset	(231,329)
Interest expense	(3,691,494)
Total nonoperating revenues (expenses)	<u>282,745</u>
Income before capital contributions	<u>(1,031,180)</u>
Capital contributions - general facility charges	5,899,604
Capital contributions - developers	<u>35,001,835</u>
Change in net position	39,870,259
Net position-beginning	472,456,551
Prior period adjustment	(14,848,302)
Restated net position-beginning	<u>457,608,249</u>
Net position-ending	<u>\$ 497,478,508</u>

ALDERWOOD WATER & WASTEWATER DISTRICT

Statement of Cash Flows
For the year ended December 31, 2019

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 87,171,454
Payments for purchased water	(17,701,255)
Payments for sewage treatment	(29,535,669)
Payments to suppliers and service providers	(8,938,246)
Payments to and for employees salaries and bene	(17,433,308)
Other operating receipts (payments)	1,015,013
Net cash provided by (used for) operating activiti	<u>14,577,989</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(18,240,848)
Proceeds from disposal of assets	113,302
Payments received on ULID assessments	22,163
Proceeds from capital debt	-
Principal paid on capital debt	(5,911,815)
Interest paid on capital debt	(3,683,633)
Capital contributions	5,899,604
Other capital related receipts (payments)	980,313
Net cash provided by (used for) capital and relat	<u>(20,820,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	49,370,783
Purchase of investments	(58,427,162)
Interest on investments	4,950,428
Net cash provided by investing activities	<u>(4,105,951)</u>
Net increase (decrease) in cash and cash equi	(10,348,875)
Cash and cash equivalents at beginning of year	<u>26,955,744</u>
Cash and cash equivalents at end of year	<u>\$ 16,606,869</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (1,313,925)</u>
Adjustments to reconcile operating income (loss) to to net cash provided by (used for) operating activities:	
Depreciation expense	15,381,489
Decrease (increase) in accounts receivable	(1,381,952)
Decrease (increase) in inventories	(39,555)
Decrease (increase) in prepaid items	(153,932)
Increase (decrease) in accounts payable	2,992,396
Increase (decrease) in employee benefits	(906,532)
Total adjustments	<u>15,891,914</u>
Net cash provided by (used for) operating activities	<u>\$ 14,577,989</u>
Schedule of non-cash capital and related financing activities	
Contributions of capital assets from developers	\$ 35,001,835
Increase (decrease) in fair value of investments	(1,028,189)
Amortization of bond premium	(32,265)

The notes to the financial statements are an integral part of this statement.

Alderwood Water & Wastewater District

Notes to the Financial Statements

December 31, 2019

Note 1: Summary of significant accounting policies

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

A. Reporting entity

The District was incorporated in 1931 and operates under the laws of the state of Washington applicable to special purpose districts. It is governed by an elected five-member Board of Commissioners and has no component units.

B. Measurement focus, basis of accounting, and financial statement presentation

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized and long-term liabilities are accounted for.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principle ongoing operations. The principal operating revenues of the District are charges to customers for water and wastewater services. Operating expenses for the District include the cost of water from the wholesale provider, wastewater treatment costs, administrative services, operating and maintenance costs, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are recorded at year-end.

All activities of the District are reported within a single enterprise fund.

C. Assets, liabilities, deferred outflows/inflows of resources, and net position

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with maturity of three months or less when purchased, to be cash equivalents.

2. Investments

Investments are reported at fair value except for investments in the Washington State Local Government Investment Pool which are reported at amortized cost. The District is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, the State Investment Pool, and in other investments authorized by law. District

policy requires that all investments be purchased DVP (delivery vs. payment), which means cash payments for securities are made at the same time as, or after, the delivery of the security. Securities are held in safekeeping by a third-party custodian. Additional detailed information on investments can be found in Note 2.

3. Receivables, net

The District uses the allowance method of accounting for doubtful accounts. Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien, foreclosure, and water shutoff rights provided by RCW 57.08.081.

4. Inventories and prepaid items

Inventories are valued using the first in first out (FIFO) method. The cost of inventory is recorded as expense when consumed, rather than when purchased.

Certain payments to vendors such as insurance and maintenance agreements, reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

5. Restricted investments

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

6. Long-term Receivables

The District's long-term receivables consist of capacity charges billable to customers over the next 15 years. In the 2013 contract amendment to the King County Sewer Disposal Agreement, it was agreed that, as a result of redirecting the sewage and waste of Area D away from King County's regional wastewater facilities to the District's Picnic Point Wastewater Treatment Facility, the District would pay the County the amount of capacity charges still owed and the County would assign the District the right to collect those capacity charges. The District will begin billing customers in 2020 and will continue on a quarterly basis until all installments are billed. The portion of these receivables billable within one year is reflected in Receivables, net.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., mains, valves, and similar items), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded using a unit cost method.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency or extend the useful life of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are completed.

Land and construction-in-progress are not depreciated. Other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital asset classes	Useful Life
Building	40 - 50
Building Improvements	25
Vehicles	7
Equipment	3 - 10
Reservoirs	75
Water Pipes	75
Wastewater Pipes	50

Additional detailed information on capital assets can be found in Note 3.

8. Deferred outflows/inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net assets that is applicable to a future reporting period. The District records deferred outflows/inflows of resources related to their participation in Washington State pension programs.

9. Compensated absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred.

Vacation pay, which may be accumulated up to 240 hours per employee, is payable upon resignation, retirement, or death. Employees may sell back to the District accrued but unused vacation benefits with certain restrictions, up to a maximum of 80 hours for non-represented staff and 40 hours for represented staff.

Sick leave may accumulate indefinitely and is payable in part upon separation, retirement or death. For non-represented staff, and represented staff hired after January 1, 2014, upon voluntary separation, the employee will receive 25% of the accrued and unused sick leave after 10 years of service or 50% after 20 years of service. For represented staff hired before this date, the employee will receive 50% of the accrued and unused sick leave after 10 years of service. Upon death of an employee, his/her beneficiary will receive 50% of the accrued and unused sick leave. Annually an employee may sell back to the District accrued sick leave in excess of 384 hours at 50% of the current hourly rate.

Vacation benefits are accrued for all eligible employees. Sick leave benefit amounts for represented and non-represented employees are accrued for employees with 10 or more years of service.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the

Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

D. Revenues and expenses

1. Other charges for services

Other charges include preliminary engineering charges, water use permits, side sewer permits, industrial waste surcharges, and sales of supplies and materials.

Note 2: Deposits and Investments

A. Cash on hand and deposits with financial institutions

The District's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC. Cash on hand at December 31, 2019 was \$3,200 and the bank balance was \$3,086,579.

B. Investments

All surplus cash is invested in accordance with an investment policy approved by the District's Board of Commissioners. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080).

The Washington State Local Government Investment Pool (LGIP) is managed and operated by the Washington Office of the State Treasurer (OST). The OST is responsible for establishing the investment policy for the pool and reviews it annually. Any 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 GASBS 79 for external investments 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, online at <http://www.tre.wa.gov>. As of December 31, 2019, the District held \$7,651,166 in LGIP investments and an in-transit deposit from US Bank in the amount of \$6,000,000.

All investments are subject to the following risks:

Interest rate risk is the risk that the District may face should interest rate variances affect the value of investments. As a means of limiting its exposure to fair value losses caused by a rise in interest rates, the District's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to two years. The portfolio weighted maturity at year end was 1.3 years.

The following schedule presents the investments and related maturities as of December 31, 2019:

Investment Type	Investment Maturities (in years)		
	Fair Value	Less than 1 year	1-5 year
U.S. Treasury Notes	\$ 25,126,565	\$ 15,049,610	\$ 10,076,955
Government Sponsored Enterprises	61,798,034	17,094,072	44,703,962
Total	\$ 86,924,599	\$ 32,143,682	\$ 54,780,917

Credit risk is the chance that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy applies the prudent person standard; investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. All of the District's investments are held in organizations with a Moody's rating of Aaa, excluding investments with The Washington State Local Government Investment Pool which is unrated.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's Investment Policy requires that all security transactions entered into by the District will be conducted on a DVP basis and will be held in safekeeping by a third-party custodian. All of the District's securities at year end were held in safekeeping by a third-party custodian and are not exposed to custodial credit risk.

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the District's policy to diversify its investments by security type and institution. The District's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 35% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution. Detailed information on concentration risk is covered in the District Investment Policy.

Fair Value Hierarchy. Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Treasury securities classified in Level 1 are valued using quoted prices in an active market for identical assets. Government Sponsored Enterprise (GSE) Securities classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 3 security classifications to report.

Investment Type	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Notes	\$ 25,126,565	\$ 25,126,565	\$ -	\$ -
Government Sponsored Enterprises	61,798,034	-	61,798,034	-
Total	\$ 86,924,599	\$ 25,126,565	\$ 61,798,034	\$ -

Note 3: Utility plant and depreciation

Capital asset activity for the year ended December 31, 2019 was as follows:

	Restated Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019
Capital assets, not being depreciated:				
Land	\$ 1,041,092	\$ -	\$ -	\$ 1,041,092
Construction-in-progress	21,206,547	19,552,482	(10,869,004)	29,890,025
Total capital assets, not being depreciated	22,247,639	19,552,482	(10,869,004)	30,931,117
Capital assets, being depreciated:				
Plant	161,654,214	8,516,681	-	170,170,895
Distribution and collection systems	401,563,582	35,097,411	(1,529,864)	435,131,129
Machinery and equipment	28,192,124	820,118	(375,445)	28,636,797
Total capital assets, being depreciated	591,409,920	44,434,210	(1,905,309)	633,938,821
Less accumulated depreciation for:				
Plant	(52,034,366)	(6,309,958)	-	(58,344,325)
Distribution and collection systems	(107,032,626)	(7,473,818)	1,195,255	(113,311,188)
Machinery and equipment	(13,963,386)	(1,597,713)	361,226	(15,199,872)
Total accumulated depreciation	(173,030,378)	(15,381,489)	1,556,481	(186,855,386)
Total capital assets being depreciated, net	418,379,542	29,052,721	(348,828)	447,083,435
Capital assets, net	\$ 440,627,181	\$ 48,605,203	\$ (11,217,832)	\$ 478,014,552

In 2019, the District raised the capital asset threshold from \$5,000 to \$25,000. The District also removed assets that were determined to be capitalized in error from prior years. This resulted in a prior period adjustment to net position and beginning capital asset balances in the amount of \$(14,251,659).

Note 4: Significant Construction Commitments

The District had the following significant construction projects in progress as of December 31, 2019. Project budgets include District staff labor:

Project Name	Expended to Date	Remaining Budget
PPWWTF Equalization Basin	\$ 774	\$ 11,278,227
Water Pressure Reduction - Phase 2 (380E and 420 Zones)	564,424	4,584,216
Valve Vaults, Air Vacs & Blowoff Upgrades on Transmission M	171,789	4,317,391
164th St SW Transmission Main Connection	299,527	4,315,749
Queensborough Sewer Rehab Project (NC-35(A))	5,770	4,251,230
180th Snohomish County Phase 2	202,430	3,380,871
Reservoir #2 and #3 Coating	6,672,709	3,071,943
Water Pressure Reduction - Phase 1 (380W and 330 Zones)	568,835	2,454,503
PPWWTF Membranes (PP-TF(E))	16,095,582	1,961,439
2019 CIPP Sewer Installation (SCOLL-19A)	1,240	1,648,760
Snohomish County North Creek Trail Phase 1	16,595	1,505,633
	<u>\$24,599,676</u>	<u>\$42,769,962</u>

Note 5: Pension plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$4,265,686
Pension assets	\$0
Deferred outflows of resources	\$1,233,968
Deferred inflows of resources	\$2,380,741
Pension expense/expenditures	\$497,730

State Sponsored Pension Plans

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

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

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

Contributions

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

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

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

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

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

of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

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

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January - June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
July - December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The District's actual PERS plan contributions were \$595,214 to PERS Plan 1 and \$872,902 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

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

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

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

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

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

Discount Rate

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$4,084,503	\$3,261,553	\$2,547,536
PERS 2/3	7,701,297	1,004,133	(4,491,334)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the District reported a total pension liability of \$4,265,686 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,261,553
PERS 2/3	1,004,133

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.082100%	0.084818%	(0.002718%)
PERS 2/3	0.100679%	0.103376%	0.002697%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

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

Pension Expense

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

	Pension Expense
PERS 1	\$275,306
PERS 2/3	222,424
TOTAL	497,730

Deferred Outflows of Resources and Deferred Inflows of Resources

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

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$217,899)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$276,474	\$0
TOTAL	\$276,474	(\$217,899)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$287,786	(\$215,883)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,461,808)
Changes of assumptions	\$25,713	(\$421,301)
Changes in proportion and differences between contributions and proportionate share of contributions	\$212,926	(\$64,051)
Contributions subsequent to the measurement date	\$431,169	\$0
TOTAL	\$957,494	(\$2,162,842)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$287,686	(\$215,883)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,679,507)
Changes of assumptions	\$25,713	(\$421,301)
Changes in proportion and differences between contributions and proportionate share of contributions	\$212,926	(\$64,051)
Contributions subsequent to the measurement date	\$707,643	\$0
TOTAL	\$1,233,968	(\$2,380,741)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1
2020	(\$48,102)
2021	(\$113,941)
2022	(\$40,661)
2023	(\$15,195)
2024	\$0
Thereafter	\$0

Year ended December 31:	PERS Plan 2/3
2020	(\$422,714)
2021	(\$716,788)
2022	(\$299,322)
2023	(\$144,689)
2024	(\$71,444)
Thereafter	\$18,439

Note 6: Long-term Liabilities

Loans Payable

The Districts long-term loan debt is comprised of the following:

Public Works Trust Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
99-791-001 Water Reservoir No 1 Cover	1999	3,420,060	1.000%	2019	\$ -
00-691-001 Water Low Pressure Area Improvement	2000	1,402,800	1.000%	2020	77,776
05-691-PRE-108 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	315,790
05-691-PRE-126 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	320,175
06-962-001 Wastewater Facility Upgrade	2006	7,000,000	0.500%	2026	2,674,762
					<u>\$ 3,388,503</u>
State Revolving Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
L0900006 Wastewater Facility Upgrade	2011	\$ 9,308,953	2.700%	2031	\$ 6,032,950
DM-12-952-098 Water Pump Station & High Tank	2012	2,663,943	1.500%	2034	2,010,406
DM-13-952-125 660/520/340 Water Pressure Zone	2013	5,858,044	1.500%	2038	5,549,726
					<u>\$ 13,593,082</u>

The State of Washington has a low-cost financing program that allows public entities to borrow funds to finance public works projects. This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board. The State Revolving Fund program administered by the

State of Washington also provides lower-cost financing to public projects that meet certain requirements.

In 2000, the District partially funded construction of improvements to the Northeast pressure zone with PWTF loans. Construction of a cover for Reservoir No. 1, which has a capacity of 28,000,000 gallons, was also funded in part by a PWTF loan during 1999. A total of \$9,000,000 in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. \$7,000,000 of these funds were used for pre-construction design and planning activities. Each of these loans will be repaid over a period not to exceed 20 years at the interest rates stated above.

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquids facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$2,663,943 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the D-1 Transmission Main Project. The final draw on the loan was completed in 2018, resulting in a total of \$5,858,044 with the first payment beginning in 2019.

Bonds

The District's long-term bond debt is composed of the following bond issues:

Bond Obligations	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
2010 State Revenue Bond - Series B	2010	49,325,000	4.200% - 5.500%	2029	\$ 44,605,000
2013 State Revenue Bond	2013	25,000,000	2.000% - 4.625%	2043	22,290,000
					<u>\$ 66,895,000</u>

In February 2010 the District issued \$53 million in new Water and Sewer Revenue bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. These bonds were issued as Build America Bonds – direct payment and were split into Series A and Series B. Series A totaled \$3.675 million and has been paid in full. The District has contracted with the Bank of New York, Mellon, the current fiscal agent, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all of the 2010 bond proceeds were fully drawn and expended.

In October 2013, the District issued \$25,000,000 in revenue bonds to finance upcoming wastewater capital improvement projects. As of December 31, 2014, all of the 2013 Revenue Bond proceeds were fully drawn and expended.

All bond debt is secured by the District revenues. Restricted investments for debt services as of December 31, 2019 is \$ 7,432,500. This represents debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.

The debt service requirements for the District's loans and bonds are as follows for the years ending December 31:

Year	Principal	Interest
2020	5,876,763	3,536,768
2021	5,956,384	3,376,894
2022	6,109,122	3,212,676
2023	6,277,207	2,834,612
2024	6,455,650	2,579,906
2025-2029	33,577,811	8,664,577
2030-2034	7,603,694	3,366,013
2035-2039	6,534,954	2,093,711
2035-2043	5,485,000	648,425
	<u>\$83,876,585</u>	<u>\$30,313,582</u>

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

Changes in the District's long-term liabilities for the year ended December 31, 2019 are as follows:

	Restated Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due within one year
Public Works Trust Fund loans	\$ 4,136,504	\$ -	\$ (748,001)	\$ 3,388,503	\$ 565,880
State Revolving Fund loans	14,476,896	-	(883,814)	13,593,082	895,883
Bond obligations	71,175,000	-	(4,280,000)	66,895,000	4,415,000
Bond premium	803,950	-	(32,266)	771,684	32,265
Pension obligation	5,385,618	1,468,116	(2,588,048)	4,265,686	-
Compensated absences	1,479,326	1,456,716	(1,479,326)	1,456,718	364,180
	<u>\$ 97,457,294</u>	<u>\$ 2,924,832</u>	<u>\$ (10,011,454)</u>	<u>\$90,370,673</u>	<u>\$ 6,273,208</u>

During 2019, it was discovered that loan origination fees for a state revolving loan were not recognized when incurred. This resulted in a prior period adjustment to net position and beginning loan balance in the amount of \$64,663.

Note 7: Risk Management

Unemployment

The District is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the District. Below is an analysis of claims activity for the two-year period ended December 31, 2019:

	2018	2019
Liability - beginning	\$ 319	\$ 3,738
Claims incurred	4,429	17,182
Claim payments	(1,011)	(16,548)
Liability - ending	<u>\$ 3,738</u>	<u>\$ 4,372</u>

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; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Members make an annual premium 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, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer

Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed

automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

Note 8: Other Parties

Clearview Water Supply Agency

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). The purpose of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. The District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

CWSA purchases all of its water from the District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses.

In 2018, the Board of Commissioners of the (CWSA) adopted a resolution clarifying that CWSA is not a joint venture under Governmental Accounting Standards Board (GASB) Statement No. 14 but is a jointly governed organization under Chapter 39.34 RCW. The CWSA is comprised of three Special Purpose Districts: Alderwood Water & Wastewater District, Cross Valley Water District, and Silver Lake Water & Sewer District. The CWSA Board's action was the result of discussions between representatives of the Washington State Auditor's Office (SAO) and the representatives for the three member districts of CWSA as to how to clarify the nature of CWSA's relationship with its three member districts.

Annual financial statements are available by contacting Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

Wholesale Customers

The District has interlocal agreements to sell wholesale water to the cities of Edmonds, Lynnwood, Mountlake Terrace, the Mukilteo Water & Wastewater District and the Silver Lake Water & Sewer District. A portion of each payment from the wholesale customers is set aside by the district in a wholesale rate stabilization fund that can be used to mitigate future rate increases. This liability is currently at \$617,634.

Note 9: Other Disclosures

Prior Period Adjustments

In December 2019, the Finance Director approved for the District's capital asset threshold policy to be raised from \$5000 to \$25,000. Assets that did not meet the new threshold were retired. This resulted in a reduction in net position of \$630,215. An additional 27 assets were identified as consisting of individual assets that did not meet the previous asset threshold of \$5,000. This resulted in a reduction in net position of \$6,371,192. Nine assets were identified as being property of the City of Everett. These were originally booked as Alderwood assets based on the work the District performed in their construction. Removing these assets resulted in a reduction of net position of \$7,250,252. In addition, the District determined that prior years' revenues for wholesale water sales have been overstated. The total amounts billed to wholesale customers were recorded as revenue when a portion should have been accounted for as a liability for the wholesale rate stabilization fund. This adjustment resulted in a reduction in net position of \$531,980. It was also discovered that loan origination fees had not been booked for Water State Revolving Fund - DM13-952-125. This increased the beginning balance of the liability and brought about a prior adjustment in the amount of \$64,663. The total prior period adjustment recorded by the District was a \$14,848,302 reduction in net position.

Note 10: Subsequent Events

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

As a result of these measures, economic uncertainties have arisen which are likely to negatively impact operating results, though such potential impact is unknown at this time. As of March 26, 2020, the District closed its administrative office to the public. The majority of staff are working remotely. Public meetings are still ongoing via the use of virtual online meetings. Maintenance and Operations maintains a crew on site to respond to emergencies such as water main breaks, sewer plugs, service leaks, etc. The District has refrained from disconnecting service due to late payment and has suspended all late fees until the Governor lifts the emergency mandate. The debt accrued is expected to be paid in full. Payment plans will be arranged for up to twelve months. Management has performed their analysis through May 21st, the date the financial statements were available for issuance.

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

Required Supplementary Information

**Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019
Last Ten Fiscal Years***

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.084818%	0.082100%	0.085174%	0.081201%	0.083423%
Employer's proportionate share of the net pension liability	\$3,261,553	\$3,666,614	\$4,041,573	\$4,360,876	\$4,363,799
Covered payroll	\$11,503,864	\$10,611,754	\$9,983,247	\$9,383,256	\$9,264,779
Employer's proportionate share of the net pension liability as a percentage of covered payroll	28.35%	34.55%	40.48%	46.48%	47.10%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

**Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 1
As of December 31, 2019
Last Ten Years***

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$595,214	\$ 571,908	\$ 519,497	\$ 475,623	\$ 423,748
Contributions in relation to the statutorily or contractually required contributions*	\$ (595,214)	\$ (571,908)	\$ (519,497)	\$ (475,623)	\$ (423,748)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$11,592,985	\$10,945,922	\$10,278,440	\$9,604,515	\$9,366,709
Contributions as a percentage of covered payroll	5.13%	5.22%	5.05%	4.95%	4.52%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

Required Supplementary Information

**Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019
Last Ten Fiscal Years***

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.103376%	0.100679%	0.102567%	0.097145%	0.101096%
Employer's proportionate share of the net pension liability	\$1,004,133	\$1,719,004	\$3,563,713	\$4,891,174	\$3,612,218
Covered payroll	\$11,235,764	\$10,404,020	\$ 9,696,517	\$9,103,079	\$8,991,768
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.94%	16.52%	36.75%	53.73%	40.17%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

**Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2019
Last Ten Fiscal Years***

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$872,902	\$ 802,909	\$ 686,573	\$ 580,842	\$509,457
Contributions in relation to the statutorily or contractually required contributions	\$(872,902)	\$(802,909)	\$(686,573)	\$(580,842)	\$(509,457)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$11,329,843	\$10,706,558	\$10,035,870	\$9,323,549	\$9,089,093
Contributions as a percentage of covered payroll	7.70%	7.50%	6.84%	6.23%	5.61%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov