



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Highland Water District

For the period January 1, 2020 through December 31, 2020

Published July 19, 2021

Report No. 1028740



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

July 19, 2021

Board of Commissioners
Highland Water District
Monroe, Washington

Report on Financial Statements

Please find attached our report on the Highland Water 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

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INDEPENDENT AUDITOR'S REPORT

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*

Highland Water District January 1, 2020 through December 31, 2020

Board of Commissioners
Highland Water District
Monroe, 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 Highland Water District, as of and for the year ended December 31, 2020, 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 15, 2021.

As discussed in Note 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown.

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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

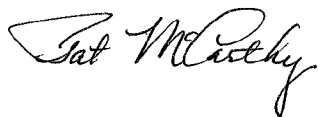
COMPLIANCE AND OTHER MATTERS

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*.

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 15, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Highland Water District January 1, 2020 through December 31, 2020

Board of Commissioners
Highland Water District
Monroe, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Highland Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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 Highland Water District, as of December 31, 2020, 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 9 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. 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 9 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 15, 2021 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 that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

July 15, 2021

FINANCIAL SECTION

Highland Water District January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – Western Conference of Teamsters Pension Trust
Fund – 2020

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2020

Brief Discussion of the Basic Financial Statements

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

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

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

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

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

Condensed Comparative Statement of Net Position

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

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current Assets	\$ 2,433,866	\$ 2,282,337
Noncurrent Assets:		
Capital Assets - Net	8,363,391	8,261,720
Other	<u>300,842</u>	<u>314,256</u>
Total Assets	<u>\$ 11,098,099</u>	<u>\$ 10,858,313</u>

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2020

Liabilities

Current Liabilities	\$ 377,144	\$ 418,171
Noncurrent Liabilities:		
Long-Term Debt	3,306,900	3,547,577
Other	<u>12,195</u>	<u>14,016</u>
Total Liabilities	<u>\$ 3,696,239</u>	<u>\$ 3,979,764</u>

Net Position

Net Investment in Capital Assets	\$ 4,785,901	\$ 4,434,509
Restricted for Debt Service	209,384	205,663
Restricted for Capital Projects	-	-
Unrestricted	<u>2,406,575</u>	<u>2,238,377</u>
Total Net Position	<u>\$ 7,401,860</u>	<u>\$ 6,878,549</u>

Analysis of the Condensed Comparative Statement of Net Position

Assets

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

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

Liabilities

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

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

Net Position consists of assets minus liabilities. The increase in net position for 2020 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District's net position indicate the

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2020

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):

	<u>2020</u>	<u>2019</u>
<u>Revenues</u>		
Water Operating Revenue	\$ 1,281,879	\$ 1,323,763
Nonoperating Revenues	<u>25,333</u>	<u>48,338</u>
Total Revenues	<u>\$ 1,307,212</u>	<u>\$ 1,372,101</u>
<u>Expenses</u>		
Operating Expenses	\$ 989,075	\$ 934,281
Nonoperating Expenses	<u>141,149</u>	<u>146,589</u>
Total Expenses	<u>\$ 1,130,224</u>	<u>\$ 1,080,870</u>
Change in Net Position before Capital Contributions	\$ 176,988	\$ 291,231
Capital Contributions	<u>346,323</u>	<u>672,058</u>
Change in Net Position	\$ 523,311	\$ 963,289
<u>Total Net Position, January 1</u>	<u>6,878,549</u>	<u>5,915,260</u>
<u>Total Net Position, December 31</u>	<u>\$ 7,401,860</u>	<u>\$ 6,878,549</u>

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

Revenues

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

Expenses

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

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2020

expense. Accounting expense increased due to an increase in the state auditor's fee for the annual audit.

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

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

Change in Net Position

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

Analysis of Overall Financial Condition

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

Capital Assets

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

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

	<u>Balance</u> <u>12/31/20</u>	<u>Balance</u> <u>12/31/19</u>	<u>Change</u>
Land	\$ 99,147	\$ 99,147	\$ -
Utility Plant	12,011,587	11,726,765	284,822
Equipment	101,699	96,029	5,670
Intangibles	106,193	89,763	16,430
Accumulated Depreciation	<u>(3,955,235)</u>	<u>(3,749,984)</u>	<u>(205,251)</u>
Total Capital Assets, Net	<u>\$ 8,363,391</u>	<u>\$ 8,261,720</u>	<u>\$ 101,671</u>

See Note 3 for more information regarding capital assets.

Long-Term Debt

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

Highland Water District
Statement of Net Position
December 31, 2020

	<u>2020</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash & Cash Equivalents	\$ 1,979,456
Accrued Interest Receivable	193
Assessments Receivable - Friar Creek (Current Portion)	11,765
Receivables (Net):	
Customer Accounts Receivable	110,794
Other Receivables	16,479
Restricted Assets:	
Cash & Cash Equivalents	268,478
Accrued Interest Receivable	988
Inventories	26,715
Prepayments	13,952
Due from Developers	<u>5,046</u>
Total Current Assets	<u>\$ 2,433,866</u>
<u>Noncurrent Assets</u>	
Assessments Receivable - Friar Creek (Less Current Portion)	\$ 295,414
Restricted Assets:	
U.L.I.D. Assessments Receivable	5,428
Capital Assets Not Being Depreciated	
Land and Land Rights	99,147
Capital Assets Being Depreciated	
Plant	12,011,587
Equipment	101,699
Intangibles	106,193
Less Accumulated Depreciation	<u>(3,955,235)</u>
Total Noncurrent Assets	<u>\$ 8,664,233</u>
Total Assets	<u>\$ 11,098,099</u>

The accompanying notes are an integral part of this statement.

Highland Water District
Statement of Net Position
December 31, 2020

	<u>2020</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable - Maintenance	\$ 28,144
Accounts Payable - Capital Improvements	2,211
Accrued Wages	9,060
Accrued Interest Payable	1,629
Current Portion of Long-Term Debt	240,680
Developer Maintenance Bond Payable	29,910
Payables from Restricted Assets:	
Accrued Interest Payable - USDA Loans	<u>65,510</u>
Total Current Liabilities	<u>\$ 377,144</u>
<u>Noncurrent Liabilities</u>	
Department of Agriculture Loans	\$ 3,002,824
Public Works Trust Fund Loans	304,076
Compensated Absences	<u>12,195</u>
Total Noncurrent Liabilities	<u>\$ 3,319,095</u>
Total Liabilities	<u>\$ 3,696,239</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 4,785,901
Restricted for Debt Service	209,384
Unrestricted	<u>2,406,575</u>
Total Net Position	<u>\$ 7,401,860</u>

The accompanying notes are an integral part of this statement.

Highland Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2020

	<u>2020</u>
<u>Operating Revenues</u>	
Water Sales	\$ 1,293,369
Local Facility Charges	(16,700)
Penalties	3,180
Miscellaneous Revenue	<u>2,030</u>
Total Operating Revenues	\$ 1,281,879
<u>Operating Expenses</u>	
Water Purchases	\$ 253,068
Labor Costs	198,965
Payroll Taxes & Benefits	63,076
System Maintenance and Supplies	42,142
Other Operating Expenses	21,722
Depreciation Expense	209,251
Business Taxes	66,733
General & Administrative Expenses	<u>134,118</u>
Total Operating Expenses	\$ 989,075
Operating Income (Loss)	\$ 292,804
<u>Nonoperating Revenues (Expenses)</u>	
Interest on Investments	\$ 25,333
Interest Expense	<u>(141,149)</u>
Total Nonoperating Revenues (Expenses)	\$ (115,816)
Income Before Contributions	\$ 176,988
Capital Contributions	<u>346,323</u>
Change in Net Position	\$ 523,311
<u>Total Net Position, January 1</u>	<u>6,878,549</u>
<u>Total Net Position, December 31</u>	<u>\$ 7,401,860</u>

The accompanying notes are an integral part of this statement.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2020

	<u>2020</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 1,263,724
Cash Paid to Suppliers	(562,301)
Cash Paid to Employees	<u>(246,683)</u>
Net Cash Provided by Operating Activities	<u>\$ 454,740</u>
<u>Cash Flows From Capital & Related</u>	
<u>Financing Activities</u>	
Acquisition and Construction of Capital Assets	\$ (22,100)
Principal Payments on Public Works	
Trust Fund Loans	(149,350)
Principal Payments on Dept. of Agriculture Loans	(100,371)
Interest Paid on Long-Term Debt	(144,183)
Capital Contributions	70,320
Developer & Other Deposits	<u>(6,432)</u>
Net Cash (Used) by Capital	
& Related Financing Activities	<u>\$ (352,116)</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 27,576</u>
Net Cash Provided by Investing Activities	<u>\$ 27,576</u>
Net Increase in Cash & Cash Equivalents	\$ 130,200
Cash & Cash Equivalents at Beginning of Year	<u>2,117,734</u>
Cash & Cash Equivalents at End of Year	<u>\$ 2,247,934</u>
<u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ 288,823</u>
Book Value of Plant Removals	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2020

	<u>2020</u>
<u>Reconciliation of Net Operating Income</u> <u>to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ 292,804
<u>Adjustments to Reconcile Net Operating</u> <u>Income to Net Cash Provided by</u> <u>Operating Activities</u>	
Depreciation	\$ 209,251
Change in Assets & Liabilities:	
(Increase) Decrease in Customer Accounts Receivable	(1,676)
(Increase) Decrease in Other Receivable	(16,479)
(Increase) Decrease in Prepayments	14
(Increase) Decrease in Inventories	209
Increase (Decrease) in Accounts Payable - Maintenance	(30,033)
Increase (Decrease) in Accounts Payable - Capital Improvements	2,211
Increase (Decrease) in Accrued Wages Payable	260
Increase (Decrease) in Vested Benefits	<u>(1,821)</u>
Total Adjustments	\$ <u>161,936</u>
 Net Cash Provided by Operating Activities	 \$ <u>454,740</u>

The accompanying notes are an integral part of this statement.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

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

i. Compensated Absences

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

j. Subsequent Events

Management has evaluated subsequent events through March 26, 2021.

NOTE 2 - DEPOSITS & INVESTMENTS

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

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

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

	<u>12/31/20</u>
Petty Cash Fund	\$ 449
Bank Deposit Accounts - FDIC Insured	267,866
Cash on Deposit with Snohomish County Treasurer	58,255
Investment in Local Governmental Investment Pool (LGIP)	<u>1,921,364</u>
Total Cash & Investments	<u>\$ 2,247,934</u>

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

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

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

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Investments in Local Government Investment Pool (LGIP)

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

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

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

Investments Measured at Fair Value

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

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

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

- Investments in Local Governmental Investment Pool are valued using quoted market prices
(Level 1 inputs)

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 3 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 99,147	\$ -	\$ -	\$ 99,147
<u>Total capital assets not being depreciated</u>	<u>99,147</u>	<u>-</u>	<u>-</u>	<u>99,147</u>
Capital assets being depreciated:				
Plant	11,726,765	288,822	(4,000)	12,011,587
Equipment	96,029	5,670	-	101,699
Intangibles	89,763	16,430	-	106,193
<u>Total capital assets being depreciated</u>	<u>11,912,557</u>	<u>310,922</u>	<u>(4,000)</u>	<u>12,219,479</u>
Less accumulated depreciation for:				
Plant	3,610,365	191,964	(4,000)	3,798,329
Equipment	63,430	5,298	-	68,728
Intangibles	76,189	11,989	-	88,178
<u>Total accumulated depreciation</u>	<u>3,749,984</u>	<u>209,251</u>	<u>(4,000)</u>	<u>3,955,235</u>
<u>Total capital assets being depreciated, net</u>	<u>8,162,573</u>	<u>101,671</u>	<u>-</u>	<u>8,264,244</u>
 <u>TOTAL CAPITAL ASSETS, NET</u>	 <u>\$ 8,261,720</u>	 <u>\$ 101,671</u>	 <u>\$ -</u>	 <u>\$ 8,363,391</u>

NOTE 4 - CONSTRUCTION IN PROGRESS

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

	<u>Project Authorization</u>	<u>Expended to 12/31/20</u>	<u>Committed</u>	<u>Required Future Financing</u>
127 th St SE Pipe Replace.	\$ 600,000	\$ -	\$ 600,000	\$ -
Telemetry & Security	150,000	-	150,000	-
Woods Lake Rd project	1,767,197	-	1,767,197	1,737,197
	<u>\$ 2,517,197</u>	<u>\$ -</u>	<u>\$ 2,517,197</u>	<u>\$ 1,737,197</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

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:

	<u>2020</u>
<u>1996 loan</u> - payable at \$1,826 monthly (including interest at 5.5% per annum) through the year 2036 Original debt: \$353,858 for main replacement.	\$ 228,116
<u>2003 loan</u> - payable at \$29,858 annually (including interest at 4.625% per annum) through the year 2027 Original debt: \$471,530 for main replacement.	164,165
<u>2003 loan</u> - payable at \$27,016 annually (including interest at 4.5% per annum) through the year 2023 Original debt: \$355,503 for main replacement.	51,710
<u>2009 loan</u> - payable at \$161,551 annually (including interest at 4.25% per annum) through the year 2049 Original debt: \$3,051,000 for main replacement.	<u>2,663,736</u>
	<u>\$ 3,107,727</u>

The annual requirements to amortize all notes from direct borrowings outstanding as of December 31, 2020, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 104,903	\$ 135,434	\$ 240,337
2022	109,641	130,696	240,337
2023	88,853	125,744	214,597
2024	91,597	121,724	213,321
2025	95,743	117,578	213,321
2026 - 2030	436,821	525,146	961,967
2031 - 2035	492,064	425,251	917,315
2036 - 2040	501,828	316,607	818,435
2041 - 2045	604,954	202,801	807,755
2046 - 2049	<u>581,323</u>	<u>62,929</u>	<u>644,252</u>
	<u>\$ 3,107,727</u>	<u>\$ 2,163,910</u>	<u>\$ 5,271,637</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

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:

	<u>2020</u>
<u>2002 loan</u> - payable at \$73,786 annually through the year 2022, plus interest at .5% per annum	
Original debt: \$1,530,000 for main replacement	\$ 147,571
<u>2004 loan</u> - payable at \$17,671 annually through the year 2024, plus interest at .5% per annum	
Original debt: \$335,750 for Reservoir 2 preconstruction	70,684
<u>2005 loan</u> - payable at \$14,122 annually through the year 2025, plus interest at 2% per annum	
Original debt: \$362,093 for main replacement	70,610
<u>2005 loan</u> - payable at \$30,197 annually through the year 2025, plus interest at .5% per annum	
Original debt: \$573,750 for Reservoir 2	<u>150,988</u>
	<u>\$ 439,853</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 135,776	\$ 3,258	\$ 139,034
2022	135,776	2,368	138,144
2023	61,990	1,477	63,467
2024	61,990	955	62,945
2025	<u>44,321</u>	<u>433</u>	<u>44,754</u>
	<u>\$ 439,853</u>	<u>\$ 8,491</u>	<u>\$ 448,344</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 5 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Liabilities

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

	Balance <u>1/1/20</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/20</u>	Due Within <u>One Year</u>
Notes from Direct Borrowings	\$ 3,208,098	\$ -	\$ (100,371)	\$ 3,107,727	\$ 104,903
Public Works Trust Fund Loans	589,203	-	(149,350)	439,853	135,776
Compensated Absences	<u>14,016</u>	<u>-</u>	<u>(1,821)</u>	<u>12,195</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 3,811,317</u>	<u>\$ -</u>	<u>\$ (251,542)</u>	<u>\$ 3,559,775</u>	<u>\$ 240,679</u>

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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 6 - PENSION PLAN (Continued)

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

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

NOTE 7 - RISK MANAGEMENT

Water and Sewer Risk Management Pool

On September 1, 2020, the District became a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Employment Practices Liability; Cyber Liability; Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 7 - RISK MANAGEMENT (Continued)

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible, per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 7 - RISK MANAGEMENT (Continued)

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2021, written notice must be in the possession of the Pool by April 30, 2021). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

Enduris

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

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

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

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 7 - RISK MANAGEMENT (Continued)

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

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

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

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

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

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

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

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

NOTE 8 - USE OF ESTIMATES

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

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 9 - COVID-19 PANDEMIC

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

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

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

REQUIRED SUPPLEMENTARY INFORMATION
Schedule I

Highland Water District
Schedule of Employer Contributions
Western Conference of Teamsters Pension Trust Fund
As of December 31, 2020
Last 10 Fiscal Years

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Statutorily or contractually required contributions	\$	6,185	4,742	4,704	4,680	4,680	4,215	6,240	6,240	6,240	
Contributions in relation to the statutorily or contractually required contributions	\$	6,185	4,742	4,704	4,680	4,680	4,215	6,240	6,240	6,240	
Contribution deficiency (excess)	\$	-	-	-	-	-	-	-	-	-	-
Covered payroll	\$	133,037	144,729	148,488	154,185	153,754	146,604	168,043	174,096	178,090	
Percentage of covered employee payroll		4.6491%	3.2765%	3.1679%	3.0353%	3.0438%	2.8751%	3.7133%	3.5842%	3.5038%	

Notes to Supplementary Schedule I

Note 1

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

Note 2: Changes of Benefit Terms

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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