



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Whitworth Water District

No. 2

For the period January 1, 2021 through December 31, 2021

Published June 16, 2022

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

June 16, 2022

Board of Commissioners
Whitworth Water District No. 2
Mead, Washington

Report on Financial Statements

Please find attached our report on Whitworth Water District No. 2's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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*

Whitworth Water District No. 2 January 1, 2021 through December 31, 2021

Board of Commissioners
Whitworth Water District No. 2
Mead, 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 Whitworth Water District No. 2, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 2, 2022.

REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.



Pat McCarthy, State Auditor

Olympia, WA

June 2, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Whitworth Water District No. 2 January 1, 2021 through December 31, 2021

Board of Commissioners
Whitworth Water District No. 2
Mead, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Whitworth Water District No. 2, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Whitworth Water District No. 2, as of year ended December 31, 2021 and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters of Emphasis

As discussed in Note 12 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 12. Our opinion is not modified with respect to this matter.

Other Matters

Prior-year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2020, from which such partial information was derived. We have previously audited the District's 2020 basic financial statements and we expressed an unmodified opinion in our report dated June 10, 2021. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and RSI related to pensions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 June 2, 2022 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 the effectiveness of the District's 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

June 2, 2022

FINANCIAL SECTION

Whitworth Water District No. 2 January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Revenues, Expenses, and Changes in Fund Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2021

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Whitworth Water District's (District) financial activities for the year that ended December 31, 2021. The Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements, which consist of: the government wide financial statements; notes to the financial statements; and other supplementary information. These should be used in conjunction with additional information that is included within the financial statements.

FINANCIAL STATEMENTS

The financial statements are designed to provide a broad overview of the District's finances. The statements provide both short-term and long-term information about the financial position and helps determine whether the District's position has improved or deteriorated during the fiscal year. This report consists of the Statement of Net Position, Statement of Revenue, Expense and Change in Fund Net Position, Notes to the Financial Statements, and Statement of Cash Flow.

Statement of Net Position: Presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in net position may indicate whether the financial position of the District is improving or deteriorating. The Statement presents information on how the net position (difference between assets and liabilities) changed during the fiscal year and consist of the following components: invested in capital assets, net of related debt; restricted assets; and unrestricted assets.

Statement of Revenues, Expenses and Changes in Fund Net Position: Relates to the revenues, expenses and balances of Whitworth Water District's financial resources. It distinguishes between operating and non-operating revenue and expenses. Capital contributions are also reported separately.

Statement of Cash Flow: Designed to show cash flows from four sources: operating activities; non-capital financing activities like contributions; capital and related financing activities; and investing activities.

Notes to the Financial Statements: The Notes to the Financial Statements serve to describe the District as a reporting entity and to further clarify its financial activity as reported in the Financial Statements.

Examining the financial statements (as a whole rather than separately from each other) will provide a more comprehensive picture of the business activities.

PROPRIETARY FUNDS

- A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District maintains an Enterprise Fund, a type of Proprietary Fund, to account for its water activities. Enterprise Funds report activities that charge fees for supplies or services to the general public. Enterprise Funds are reported as business-type activities on the government-wide financial statements. The Enterprise Fund uses the full accrual basis of accounting, where revenues are recognized in the period earned whether actually received or not, and expenses are recognized and matched with the related revenues of the period, whether actually paid or not.

FINANCIAL HIGHLIGHTS

The District reported its Net Position as of December 31, 2021 in the amount of \$45.16 million, as compared with \$43.59 million in 2020. Increase in 2021 was partly due to above normal water usage due to the unusually long hot dry season and residential development in the district.

The Current Assets increased from \$6.51 million in 2020 to \$7.21 million in 2021, most of which related to an increase in cash and inventory. Restricted Assets, which are used for long term debt repayment and for construction projects, decreased from \$5.80 million in 2020 to \$2.79 million in 2021. Decrease was due to proceeds from a Water Revenue Bond used to construct a new reservoir, drilling a new well and other small capital improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statement of Net Position:

The Statement of Net Position presents the District's assets and liabilities as of December 31, 2021. Detailed information about the District's capital assets is included in Note 2 of the Notes to the Financial Statement.

Net Position			
	2021	2020	Change
Current Assets	\$ 7,211,495	\$ 6,509,062	\$ 702,433
Restricted Assets	2,786,683	5,804,510	(3,017,827)
Non-Current, Including Capital Assets	50,392,373	48,760,001	1,632,372
Net Pension Asset	951,035	0.00	951,035
Total Assets	\$ 61,341,586	\$ 61,073,573	\$ 268,013
Deferred Outflows of Resources	139,154	156,843	(17,689)
Total Assets & Outflows	\$ 61,480,740	\$ 61,230,416	\$ 250,324
Current Liabilities	\$ 1,680,360	\$ 2,254,009	\$ (573,649)
Non-Current Liabilities	13,267,683	14,771,166	(1,503,483)
Total Liabilities	\$ 14,948,043	\$ 17,025,175	\$ (2,077,132)
Deferred Inflows of Resources	\$ 1,369,550	\$ 607,035	\$ 762,515
Total Liabilities & Inflows	\$ 16,317,593	\$ 17,632,210	\$ (1,314,617)
Invested in Capital Assets Net of Related Debt	\$ 36,375,075	\$ 33,438,021	\$ 2,937,054
Restricted for Debt, Construction & Pension	3,737,718	5,804,510	(2,066,792)
Unrestricted	5,050,354	4,355,676	694,678
Total Net Position	\$ 45,163,146	\$ 43,598,207	\$ 1,564,940
Total Net Position and Liabilities	\$ 61,480,740	\$ 61,230,416	\$ 250,323

Description of Capital Assets

The Capital Assets increased significantly for 2021, due to completion of Construction in Progress for construction and engineering services for a new 1.5MG reservoir and transmission lines. Certain expenses captured in Construction in Progress were expensed rather than capitalized. Contributions from developers totaled \$253,394.

Statement of Revenue and Expenses

The Statement of Revenue and Expenses shows the revenues and expenses that were earned and/or generated during the year with the difference reported as Change in Net Position.

Statement of Revenue and Expenses			
	2021	2020	Change
Total Operating Revenue	\$ 7,062,440	\$ 5,981,149	\$ 1,081,291
Total Operating Expense	(5,541,403)	(5,044,170)	(497,233)
Net Operating Income (Loss)	\$ 1,521,037	\$ 936,979	\$ 584,058
Non-Operating Revenue	\$ 42,500	\$ 77,796	\$ (35,296)
Non-Operating Expense	(251,991)	(341,577)	89,586
Net Non-Operating Income (Loss)	\$ (209,491)	\$ (263,781)	\$ 54,290
Net Income(Loss) prior to Contributions	\$ 1,311,546	\$ 673,198	\$ 638,348
Capital Contributions	253,394	163,218	90,176
Change in Net Position	\$ 1,564,940	\$ 836,416	\$ 728,524
Beginning Net Position	\$ 43,598,207	\$ 42,761,791	\$ 836,416
Prior Period Adjustments			
Change in Net Position	1,564,940	836,416	728,524
Ending Net Position	\$ 45,163,147	\$ 43,598,207	\$ 1,564,940

Revenue is derived from the sale of water, miscellaneous fees, and charges for other related services like fire protection, labor and materials, general facility charges, and meter installation. Expenses are a direct result of all maintenance and operation costs both internally (office) and externally (field). These revenue and expense categories are more specifically defined in the “Statement of Revenues, Expenses and Changes in Fund Net Position”. The above table reflects an increase of 18.08% in operating revenue with only an increase of 9.86% in operating expenses from 2020 to 2021.

Contributions

Capital Contributions relate to facilities donated to the District by Developers who have paid for their design and installation. There were five small developer capital contributions made to the District in 2021.

Contributions			
	2021	2020	Change
Contributions	\$ 253,394	\$ 163,218	\$ 90,176

Long Term Debt

During the 2021 fiscal year, the District continued to pay down its existing Public Works Trust Fund, Drinking Water State Revolving Fund and Water Revenue Bond debt. In 2021, the District paid off a 20 year Public Works Trust Fund note. In 2018, the District secured a long-term Water Revenue Bond for the financing of the new administration/shop complex. In 2019, the District refunded the Water Revenue Bond 2018 with a Refund Water Revenue Bond 2019 to take advantage of better covenants and interest rates. In 2020, the District secured a Water Revenue Bond for a new reservoir and future capital improvements. More detailed information about the District's long-term debt is presented in Note 3 of the Notes to Financial Statement. The District's total Public Works Trust Fund, Drinking Water State Revolving Fund, and private funded debt at December 31, 2021 and 2020 is as follows:

Long Term Debt			
	2021	2020	Change
Public Works Trust Fund	\$ 2,815,844	\$ 3,380,759	\$ (564,915)
Drinking Water State Revolving Fund	2,626,455	2,806,222	(179,767)
Refund Water Revenue Bond 2019	3,280,000	3,500,000	(220,000)
Water Revenue Bond 2020	5,295,000	5,635,000	(340,000)
Total Long Term Debt	\$ 14,017,299	\$ 15,321,981	\$(1,304,682)

District's Position

In reviewing the 2021 Financials, and noting the slight changes (both increases and decreases) in the Statement of Net Position, Revenue and Expense and Long Term Debt, the District's financial position improved and remains strong. Also, we are not aware of any facts, decisions or conditions that would have a significant effect on the District's financial position or results of operations.

WHITWORTH WATER DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2021 & 2020

<u>ASSETS</u>	2021	2020
Current Assets:		
Cash and Cash Equivalents	\$ 346,503	\$ 657,944
Temporary Investments	\$ 5,574,375	\$ 4,432,898
Receivables	\$ 386,882	\$ 427,973
Receivables - Assessments	\$ 373,352	\$ 475,355
Inventories	\$ 481,056	\$ 468,537
Prepayments	\$ 49,327	\$ 46,355
<u>Sub Total</u>	<u>\$ 7,211,495</u>	<u>\$ 6,509,062</u>
Restricted Assets:		
Debt Service, Deposits, Replacements	\$ 1,465,140	\$ 1,575,210
Construction Accounts	\$ 1,321,543	\$ 4,229,300
<u>Sub Total</u>	<u>\$ 2,786,683</u>	<u>\$ 5,804,510</u>
TOTAL CURRENT ASSETS	<u>\$ 9,998,178</u>	<u>\$ 12,313,572</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated		
Land	\$ 1,952,955	\$ 1,854,869
Construction In Progress	\$ 1,111,042	\$ 2,939,371
Capital Assets Being Depreciated		
Plant	\$ 70,876,756	\$ 65,760,384
Building, Machinery and Equipment	\$ 6,587,460	\$ 6,411,149
Less Accumulated Depreciation	\$ (30,135,840)	\$ (28,205,772)
Total Capital Assets (Net)	<u>\$ 50,392,373</u>	<u>\$ 48,760,001</u>
TOTAL NONCURRENT ASSETS	<u>\$ 50,392,373</u>	<u>\$ 48,760,001</u>
Net Pension Asset	\$ 951,035	\$ -
<u>TOTAL ASSETS</u>	<u>\$ 61,341,586</u>	<u>\$ 61,073,573</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows - Pensions	\$ 139,154	\$ 156,843
<u>TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES</u>	<u>\$ 61,480,740</u>	<u>\$ 61,230,416</u>

The notes to Financial Statements are an integral part of this statement.

WHITWORTH WATER DISTRICT NO. 2

STATEMENT OF NET POSITION

December 31, 2021 & 2020

<u>LIABILITIES</u>	2021	2020
Current Liabilities:		
Accounts Payable	\$ 215,220	\$ 678,799
TOTAL CURRENT LIABILITIES	<u>\$ 215,220</u>	<u>\$ 678,799</u>
Payables from Restricted Assets:		
Debt Principal - DWSRF, PWTF & PRIVATE	\$ 1,213,148	\$ 1,304,682
Debt Interest - DWSRF, PWTF & PRIVATE	\$ 251,992	\$ 270,527
TOTAL PAYABLES FROM RESTRICTED ASSETS	<u>\$ 1,465,140</u>	<u>\$ 1,575,210</u>
Noncurrent Liabilities:		
Compensated Absences	\$ 372,759	\$ 343,957
Other Long Term Debt	\$ 12,804,150	\$ 14,017,298
Net Pension Liability	\$ 90,774	\$ 409,911
TOTAL NONCURRENT LIABILITIES	<u>\$ 13,267,683</u>	<u>\$ 14,771,166</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 14,948,043</u>	<u>\$ 17,025,174</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pension	\$ 999,968	\$ 131,680
Deferred Inflow - Assessments	\$ 369,583	\$ 475,355
TOTAL INFLOWS OF RESOURCES	<u>\$ 1,369,551</u>	<u>\$ 607,035</u>
<u>TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES</u>	<u>\$ 16,317,593</u>	<u>\$ 17,632,209</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	\$ 36,375,075	\$ 33,438,021
Restricted for Debt, Construction & Pension	\$ 3,737,718	\$ 5,804,510
Unrestricted	\$ 5,050,354	\$ 4,355,676
TOTAL NET POSITION	<u>\$ 45,163,146</u>	<u>\$ 43,598,207</u>
<u>TOTAL NET POSITION AND LIABILITIES</u>	<u>\$ 61,480,740</u>	<u>\$ 61,230,416</u>

The notes to Financial Statements are an integral part of this statement.

WHITWORTH WATER DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For Year Ending December 31, 2021 & 2020

	<u>2021</u>	<u>2020</u>
<u>OPERATING REVENUES</u>		
Utility Sales and Service Fees	\$ 5,839,367	\$ 5,047,040
Other Charges for Services	\$ 1,223,073	\$ 934,109
Total Operating Revenue	\$ 7,062,440	\$ 5,981,149
<u>OPERATING EXPENSES:</u>		
Operations:		
General Operations	\$ 1,213,320	\$ 1,240,506
Cost of Power	\$ 938,848	\$ 644,809
Customer Services	\$ 603,638	\$ 580,996
Depreciation/Amortization/ Depletion	\$ 1,977,512	\$ 1,834,720
Payroll, Property, Excise & B&O Taxes	\$ 102,818	\$ 111,956
Insurance, Claims & Expenses	\$ 96,824	\$ 109,991
Maintenance	\$ 608,442	\$ 521,191
Total Operating Expenses	\$ 5,541,403	\$ 5,044,170
OPERATING INCOME (LOSS)	\$ 1,521,037	\$ 936,979
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest and Investment Revenue	\$ 13,421	\$ 55,080
Gains (Losses) on Capital Asset Disposition	\$ (4,100)	\$ 2,319
Misc. Nonoperating Income	\$ 33,179	\$ 20,397
Other Nonoperating Expenses - Interest Expense	\$ (251,992)	\$ (341,577)
Total Nonoperating Revenues (Expenses)	\$ (209,491)	\$ (263,781)
Income Before Contributions, Transfers Extraordinary and Special Items	\$ 1,311,546	\$ 673,198
Capital Contributions	\$ 253,394	\$ 163,218
CHANGE IN NET POSITION	\$ 1,564,940	\$ 836,416
TOTAL NET POSITION, January 1	\$ 43,598,207	\$ 42,761,791
Prior Period Adjustments	\$ -	\$ -
Change in Net Position (Stmt of Revenues)	\$ 1,564,940	\$ 836,416
TOTAL NET POSITION, December 31	\$ 45,163,147	\$ 43,598,207

The notes to Financial Statements are an integral part of this statement.

Whitworth Water District No. 2
Statement of Cash Flows
For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 7,205,534
Cash payments to suppliers for goods and services	(1,803,683)
Cash payments to employees for service	(1,340,922)
Net Cash Provided by Operating Activities	<u>\$ 4,060,929</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Proceeds from fiduciary collections - street lights	\$ 184,330
Payments on fiduciary responsibilities	\$ (184,330)
Net Cash Provided by (used for) Noncapital Financing Activities	<u>\$ -</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	\$ (4,725,112)
Principal payments made on revenue bond maturities and other long-term debt	\$ (1,304,682)
Interest paid on revenue bonds and other long-term debts	\$ (270,527)
Proceeds from sale of equipment	\$ 5,000
Non-Operating Income	\$ 33,179
Net Cash used by Capital and Related Financing Activities	<u>\$ (6,262,143)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	\$ 13,421
Net Cash provided by Investing Activities	<u>\$ 13,421</u>

Net Increase (Decrease) in Cash and Cash Equivalents **\$ (2,187,791)**

Cash and Cash Equivalents at Beginning of Year	\$10,895,352
Cash and Cash Equivalents at End of Year	<u>\$ 8,707,561</u>

Reconciliation of Cash and Cash Equivalents

Cash and investments	\$ 5,920,878
Other restricted cash and investments	2,786,683

Cash and Cash Equivalents at End of Year **\$ 8,707,561**

The notes to Financial Statements are an integral part of this statement.

Whitworth Water District No. 2
Statement of Cash Flows
For the Year Ended December 31, 2021

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ 1,521,037
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,977,512
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable	143,094
(Increase) decrease in materials and supplies	(12,519)
(Increase) decrease in prepaid expenses	(2,972)
Increase (decrease) in accounts payable	<u>434,777</u>
Total Adjustments	<u>2,539,892</u>
Net Cash provided by operating activities	<u><u>\$ 4,060,929</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Non-cash contributions in aid of construction	<u><u>\$ 253,394</u></u>
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DISCLOSURE OF ACCOUNTING POLICY:

For purposes of this statement of cash flows, the District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are thus considered as cash equivalents.

The notes to Financial Statements are an integral part of this statement.

WHITWORTH WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Whitworth Water District (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 is a municipal corporation, special purpose district that was incorporated in 1939 and operates under the laws of the State of Washington applicable to water districts. It is governed by an elected five-member Board. As defined by the generally accepted accounting principles, 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 Class A Water Utilities*.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the fund. Non-Operating income includes gains and losses from the disposal of utility plant and equipment.

The District distinguishes between operating revenues and expenses from non-operating ones. 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 miscellaneous fees. The District also recognizes as operating revenue its general facility charges intended to recover the cost of connecting new customers to the system. Operating expenses for the district include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District's financial statements include Statement of Net Position, Statement of Revenues, Expenses, and Changes in Fund Net Position, Statement of Cash Flows and the Management Discussion & Analysis. The financial statements also include the assets and liabilities for which the District has a custodial or trust responsibility.

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

D. Utility Plant and Depreciation

See Note 2.

E. Restricted Funds

In accordance with certain related loan agreements (Public Works Trust Fund, Drinking Water State Revolving Fund, and private sources), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt service, and other special reserve requirements if any. Restricted funds needed for Public Works Trust Fund and Drinking Water State Revolving Fund loans for projects not yet closed out are estimated in the following table and both principal and interest fluctuate according to the amount borrowed as of a specific date. Restricted funds required by loan covenants to cover principal and interest and reserved capital improvements funds in 2021 include the following:

	2021	2020
Long Term Debt Reserve Accounts (See Note 3)	\$ 1,465,140	\$ 1,575,210
Construction Capital Improvements (Future)		
LGIP	\$ 1,306,962	\$ 4,224,306
Washington Trust	<u>14,581</u>	<u>4,994</u>
Total	\$ 2,786,683	\$ 5,804,510

F. Receivables

The customer receivable accounts consist of amounts owed from private individuals or organizations for goods and services. The District's receivable balance represents all unpaid amounts at year end. The balance is not reduced by an estimated uncollectible amount since the District experiences virtually no bad debt loss due to its statutory authority to both refuse service on delinquent accounts until paid and to file property liens where necessary.

G. Inventories

Inventories consist of expendable supplies held for consumption and are valued by the last cost method, which approximates the market value.

H. Deposits & Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. (See Note 4)

I. Compensated Absences

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

In accordance with the District's Union contract, the District accrues vacation leave up to thirty working days (240 hrs) and sick leave up to 130 working days (1040 hrs). Vacation is payable upon resignation, retirement, or death at their current rate of pay. Sick leave is payable upon resignation, retirement or death and will be paid at 50% of their accrued sick leave up to sixty-five days (520 hrs) at their current rate of pay. Separation due to any other cause will result in forfeiture of sick leave.

The recorded liability for sick pay and vacation pay for the years ended December 31, 2021 and December 31, 2020 is noted below.

ID #	Year	Compensated Absences	Beginning Balance 01/01/2021	Additions	Reductions	Ending Balance 12/31/2021
259.12	2021	Sick	\$ 276,998	\$ 63,390	\$ 30,398	\$ 309,990
		Vacation	\$ 66,959	\$ 99,228	\$ 103,418	\$ 62,769
		Total	<u>\$ 343,957</u>	<u>\$ 162,618</u>	<u>\$ 133,816</u>	<u>\$ 372,759</u>
ID #	Year	Compensated Absences	Beginning Balance 01/01/2020	Additions	Reductions	Ending Balance 12/31/2020
259.12	2020	Sick	\$ 322,167	\$ 2,493	\$ 48,122	\$ 276,998
		Vacation	\$ 74,583	\$ 88,243	\$ 95,867	\$ 66,959
		Total	<u>\$ 397,210</u>	<u>\$ 90,736</u>	<u>\$ 143,989</u>	<u>\$ 343,957</u>

J. Unamortized Debt Expense

The District has no outstanding bonds at this time.

K. Pensions

For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

NOTE 2 – UTILITY PLANT & DEPRECIATION

Major expenses for capital assets, including major repairs that increase useful lives are capitalized. Determining when to capitalize versus when to expense varies based on the project and the useful life of the expenditure. Capital assets that have a cost or value of \$5,000 or more and an estimated useful life of five (5) years or more, will be capitalized and depreciated. Maintenance and repairs which do not extend the useful life of the asset, are recorded as expenses when incurred. Land is recorded at purchase price and is not depreciated.

Donations by developers and customers are recorded at the contract price or donor cost. Depreciation on assets acquired with contributed capital is recorded with other depreciation charges.

Depreciation is computed on the straight-line method with useful lives of five to 40 years. Initial depreciation on assets is recorded in the month following purchase or completion.

When capital assets are disposed of, the original cost is removed from the fixed asset accounts, accumulated depreciation is reduced by the assets accumulated depreciation, and the net gain or loss is recorded to non-operating income or loss.

Most capital assets will fall within the following guidelines relating to the number of years they will be depreciated.

<u>Asset</u>	<u>Years</u>
Office Furniture	<u>5</u>
Electronics	<u>5</u>
Vehicles	<u>10</u>
Equipment	<u>10</u>
Meters/Hydrants	<u>20</u>
Buildings	<u>20</u>
New Office/Shop Complex	<u>40</u>
Transmission/Distribution Systems	<u>40</u>

A summary of changes in capital assets as of December 31, 2021 and December 31, 2020 follows:

1/1/2021 through 12/31/2021

	Balance 1/1/2021	Increase	Decrease	Balance 12/31/2021
Utility Plant Not Being Depreciated				
Land	\$ 1,854,869	\$ 98,086	\$ 0	\$ 1,952,955
Construction in Progress	\$ 2,939,371	\$ 2,758,169	\$ 4,586,498	\$ 1,111,042
Total Plant Not Being Depreciated	\$ 4,794,240	\$ 2,856,255	\$ 4,586,498	\$ 3,063,997
Utility Plant Being Depreciated				
Buildings, Plant	\$ 71,008,715	\$ 5,127,372	\$ 11,000	\$ 76,125,087
Equipment	\$ 1,162,817	\$ 221,855	\$ 45,543	\$ 1,339,129
Total Plant Being Depreciated	\$ 72,171,532	\$ 5,349,227	\$ 56,543	\$ 77,464,216
Less: Accumulated Depreciation	\$ (28,205,772)	\$ (1,979,151)	\$ (49,082)	\$ (30,135,841)
Total Plant Being Depreciated, Net	\$ 43,965,760	\$ 3,370,076	\$ 7,461	\$ 47,328,375
Net Capital Assets	\$ 48,760,000	\$ 6,226,331	\$ 4,593,959	\$ 50,392,372

1/1/2020 through 12/31/2020

	Balance 1/1/2020	Increase	Decrease	Balance 12/31/2020
Utility Plant Not Being Depreciated				
Land	\$ 1,467,420	\$ 387,449	\$ 0	\$ 1,854,869
Construction in Progress	\$ 3,211,685	\$ 4,010,031	\$ 4,282,345	\$ 2,939,371
Total Plant Not Being Depreciated	\$ 4,679,105	\$ 4,397,480	\$ 4,282,345	\$ 4,794,240
Utility Plant Being Depreciated				
Buildings, Plant	\$ 66,484,210	\$ 4,583,501	\$ 58,996	\$ 71,008,715
Equipment	\$ 1,141,970	\$ 117,383	\$ 96,536	\$ 1,162,817
Total Plant Being Depreciated	\$ 67,626,180	\$ 4,700,884	\$ 155,532	\$ 72,171,532
Less: Accumulated Depreciation	\$ (26,520,703)	\$ (1,834,720)	\$ (149,651)	\$ (28,205,772)
Total Plant Being Depreciated, Net	\$ 41,105,477	\$ 2,866,164	\$ 5,881	\$ 43,965,760
Net Capital Assets	\$ 45,784,582	\$ 7,263,644	\$ 4,288,226	\$ 48,760,000

NOTE 3 – LONG TERM DEBT

The District has been able to secure low interest loans from both the Washington State Public Works Trust Fund (PWTF), and the Drinking Water State Revolving Fund (DWSRF), for major construction projects. These loans are repaid from water sales revenue of the District. The District also secured a long-term Water Revenue Bond for the construction of a new administration/shop complex. In December 2019, the District refunded this debt with a long term Water Revenue Refunding Bond in order to take advantage of lower interest rates and to modify debt service requirements. In 2020, the District secured a Water Revenue Bond for the construction of a 1.5 MG Reservoir and for additional district-wide infrastructure improvements. Annual principal and interest payments on the loans require approximately 22.3% of the District's Operating Revenues. The total principal and interest remaining to be paid on the loans is \$15,807,373. Principal and interest paid for the current year was \$1,304,683 and \$270,527 respectively.

DISTRICT LOANS:

The District has both PWTF and DWSRF low interest-bearing loans from the State of Washington for the construction of numerous projects as well as Private Source funding as follows:

PWTF LOANS:

- Midway to Panorama: 2001, \$3,201,100, 20-year, .50% loan. This loan was paid off in 2021 saving approximately \$111,534 in principal payment per year plus interest.
- North Colbert: 2005, \$2,502,300, 20-year, 0.50% loan. Annual principal payment is approximately \$132,066 plus interest.
- Perry North: 2006, \$3,496,600, 20-year, 0.50% loan. Annual principal payment is approximately \$185,114 plus interest.
- Big Meadows-Woolard Regular: 2011, \$2,586,950, 20-year, 0.25% loan. Annual principal payment is approximately \$136,201 plus interest.

DWSRF LOANS:

- Chattaroy Hills: 2016, \$1,401,144, 20-year, 1.0% interest loan. Annual principal payment is approximately \$70,057 plus interest.
- 12” & 16” Main, Chattaroy Rd: 2017, \$584,781, 20-year, 1.5% interest loan. Annual principal payment is approximately \$29,239 plus interest.
- 18” Main, Bernhill: 2017, \$1,609,423, 20-year, 1.5% interest loan. Annual principal payment is approximately \$80,471 plus interest.

PRIVATE SOURCE LOANS:

- District Administration/Shop Complex: 2018, \$4,500,000 Water Revenue Refund Bond, 10-year, 2.71% interest. 2 payments annually, June – Interest only, Dec – Principal & Interest. This loan was refunded in December 2019 with a 15 year, 2.4% interest with June – Interest only, Dec – Principal & Interest. Annual principal payment averages approximately \$260,000 plus interest.
- Reservoir 9B and future infrastructure: 2020, \$6,045,000 Water Revenue Bond, 15-year, 2.46% interest. 2 payments annually, June & Dec - Principal & Interest. Annual principal payment averages approximately \$407,000 plus interest.

The estimated annual requirements to amortize outstanding debt of the District includes both principal and interest as follows:				
		Principal	Interest	Total
Year ending 12/31	2022	\$ 1,213,148	\$ 251,992	\$ 1,465,140
	2023	1,228,148	233,527	1,461,675
	2024	1,243,148	214,697	1,457,845
	2025	1,253,148	195,563	1,448,711
	2026	1,136,083	176,123	1,312,206
	2027-2031	4,999,842	594,661	5,594,503
	2032-2036	2,943,781	123,512	3,067,293
Total Outstanding Debt		\$ 14,017,298	\$ 1,790,075	\$ 15,807,373

Summary of Long-Term Debt is as follows for 2021 and 2020:

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2021	Additions	Reductions	Outstanding Debt 12/31/2021
263.88 PWTF – Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$ 111,534		\$ 111,534	\$ -0-
263.88 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 660,329		\$ 132,066	\$ 528,263
263.88 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 1,110,685		\$ 185,115	\$ 925,570
263.88 Big Meadow Regular	Mains	2011	2031	\$ 1,498,211		\$ 136,201	\$ 1,362,010
263.84 DWSRF Chattaroy Hills	Mains, Pump Station	2013	2035	\$ 1,050,858		\$ 70,057	\$ 980,801
263.84 DWSRF Bernhill	Mains, Pump Station	2014	2036	\$ 1,287,539		\$ 80,471	\$ 1,207,068
263.84 DWSRF Chattaroy/Yale Rd	Mains	2014	2036	\$ 467,825		\$ 29,239	\$ 438,586
263.61 Key Bank Refunded Commerce Bank	Administration/ Office Complex	2019	2034	\$ 3,500,000		\$ 220,000	\$ 3,280,000
263.61 Key Bank Commerce Bank	Reservoir/ Future Infrastructure	2020	2034	\$ 5,635,000		\$ 340,000	\$ 5,295,000
Total				\$ 15,321,981		\$ 1,304,683	\$ 14,017,298

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ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2020	Additions	Reductions	Outstanding Debt 12/31/2020
263.82 PWTF – Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$ 223,068		\$ 111,534	\$ 111,534
263.82 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 792,395		\$ 132,066	\$ 660,329
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 1,295,799		\$ 185,114	\$ 1,110,685
263.82 Big Meadow Regular	Mains	2011	2031	\$ 1,634,412		\$ 136,201	\$ 1,498,211
263.82 DWSRF Chattaroy Hills	Mains, Pump Station	2013	2035	\$ 1,120,915		\$ 70,057	\$ 1,050,858
263.82 DWSRF Bernhill	Mains, Pump Station	2014	2036	\$ 1,368,010		\$ 80,471	\$ 1,287,539
263.82 DWSRF Chattaroy/Yale Rd	Mains	2014	2036	\$ 497,064		\$ 29,239	\$ 467,825
263.61 Key Bank Refunded Commerce Bank	Administration/ Office Complex	2019	2034	\$ 3,725,000		\$ 225,000	\$ 3,500,000
263.61 Key Bank Commerce Bank	Reservoir/ Future Infrastructure	2020	2034	\$ -0-	\$6,045,000	\$ 410,000	\$ 5,635,000
Total				\$ 10,656,663	\$6,045,000	\$ 1,379,682	\$ 15,321,981

NOTE 4 – DEPOSITS & INVESTMENTS

The District maintains Deposit Accounts with Washington Trust Bank and Investment Accounts with the State Treasurer’s Local Government Investment Pool (LGIP).

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District deposits are mostly 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).

As required by State law, all investments of the District’s funds are obligations of the U.S. Government, the State Treasurer’s Local Government Investment Pool (LGIP), or deposits with a Washington State banking institution. District funds are invested at the direction of the District’s Board of Commissioners. The District considers all of its investments in highly liquid debt instruments to have a maturity of three months or less and are therefore considered as cash equivalents.

The District is a participant in the LGIP. It 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 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 GASB 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, or online at <http://www.tre.wa.gov>.

The District’s deposits & investments at year end 2021 & 2020 are stated as follows:

DEPOSITS & INVESTMENTS		
	2021	2020
CASH ON HAND	\$ 400	\$ 400
BANK DEPOSIT ACCOUNTS	360,684	662,539
LGIP INVESTMENTS	8,346,477	10,232,413
TOTAL DEPOSITS & INVESTMENTS	\$ 8,707,561	\$ 10,895,352

All temporary investments are stated at cost, which approximates market value.

NOTE 5 – CONSTRUCTION IN PROGRESS

As of December 31, 2021, Construction in Progress consisted of the following:

2021			
Projects	Estimated Project Authorization	Expended through 12/31/2021	Remaining Commitment
1.5 MG Hatch Reservoir	\$ 4,181,000	\$ 25,293	\$ 4,155,707
3-8 Transmission Main	7,300,000	396,842	6,903,158
System 2 Well	3,299,000	358,059	2,940,941
Reservoir 1 Fill Line	350,000	319,535	30,465
Misc District Projects	150,000	11,313	138,687
Total of Projects in Progress	\$ 15,280,000	\$ 1,111,042	\$ 14,168,958

2020			
Projects	Estimated Project Authorization	Expended through 12/31/2020	Remaining Commitment
1.5 MG Hatch Reservoir	\$ 4,181,000	\$ 25,293	\$ 4,155,707
1.5 MG Reservoir – 9B	4,743,000	2,663,640	2,079,360
3-8 Transmission Main	5,765,000	87,959	5,677,041
System 2 Well	3,299,000	7,939	3,291,061
Ardmore Booster Building Remodel	100,000	60,737	39,263
Misc District Projects	150,000	93,803	56,197
Total of Projects in Progress	\$ 18,238,000	\$ 2,939,371	\$ 15,298,629

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$ (90,774)
Pension Assets	\$ 951,035
Deferred Outflows of Resources	\$ 139,154
Deferred Inflows of Resources	\$ (999,968)
Pension Expense/expenditures	\$ (234,878)

State Sponsored Pension Plans

Substantially all District’s 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 (DRS), 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 Services (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive annual financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

Or the DRS ACFR 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 District has no active PERS 1 employees. Contributions are a component of PERS 2/3 to address the PERS 1 UAAL.

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.

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 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January - June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	.18%	
Total	12.97%	7.90%
July - December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	.18%	
Total	10.25%	6.36%

The District's actual PERS plan contributions were \$55,964 to PERS Plan 1 and \$93,353 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, 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 developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

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 was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2021, 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 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	\$ 154,639	\$ 90,774	\$ 35,078
PERS 2/3	\$ (270,931)	\$ (951,035)	\$ (1,511,100)

***See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.**

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, 2021, the District reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 90,774
PERS 2/3	\$ (951,035)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	.007876%	.007433%	(.000443%)
PERS 2/3	.010309%	.009547%	(.000762%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 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.

Pension Expense

For the year ended December 31, 2021, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (27,771)
PERS 2/3	\$(207,107)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 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	(\$ 100,729)
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	\$ 26,588	\$ 0
TOTAL	\$ 26,588	(\$ 100,729)
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,190	(\$ 11,659)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 794,842)
Changes of assumptions	\$ 1,390	(\$ 67,539)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 19,398	(\$ 25,195)
Contributions subsequent to the measurement date	\$ 45,580	\$ 0
Rounding to match Financials	\$ 8	(\$ 4)
TOTAL	\$ 112,566	(\$ 899,239)
TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,190	(\$ 11,659)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 895,571)
Changes of assumptions	\$ 1,390	(\$ 67,539)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 19,398	(\$ 25,195)
Contributions subsequent to the measurement date	\$ 72,168	\$ 0
Rounding to match Financials	\$ 8	(\$ 4)
TOTAL	\$ 139,154	(\$ 999,968)

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, 2022. 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:	PERS1	PERS 2/3
2022	(\$ 26,683)	(\$ 216,893)
2023	(\$ 24,451)	(\$ 202,613)
2024	(\$ 23,120)	(\$ 197,108)
2025	(\$ 26,475)	(\$ 210,720)
2026		(\$ 3,948)
Thereafter		(\$ 975)
Total	(\$ 100,729)	(\$ 832,257)

NOTE 7 – DEFERRED COMPENSATION PROGRAM

The State of Washington has approved offering its employees and employees of those political subdivisions that elect to participate, a deferred compensation program (DCP) pursuant to RCW 41.50.770, in accordance with Internal Revenue Code Section 457. The District commissioners have likewise approved offering its employees the State deferred compensation program. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation program is administered by DRS.

The intent of the program is to provide additional income to participants upon retirement. By deferring part of their income, participants can reduce their taxable income each year. The investments remain tax-free until they are withdrawn. The program provides participants with a way to easily save money and help supplement their other retirement income.

District employees participating in DCP self-direct their investments through options provided by the Washington State Investment Board (WSIB). The WSIB has the full power to invest moneys in DCP in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770.

The program offers two investment options as follows:

The **One-Step Investing** option is designed for those who do not have the desire, comfort level and/or time to select, monitor and rebalance, as needed, their own allocation mix of funds. Each Retirement Strategy Fund is diversified and automatically rebalances, adjusting the participant’s allocation mix as the participant moves toward a retirement date. The program funds for this option include 12 specific Retirement Strategy year options from 2000 to 2055.

The **Build and Monitor** option requires the participant to select fund(s) from any or all of the following seven professionally managed funds, monitor account activity and rebalance the allocation mix as necessary to maintain the desired investment objectives.

DCP participants may adjust or suspend their participation in the program at any time. Upon separation from employment, DCP participants have the option of withdrawing some or all of the balance in their account or leaving their balance in place to continue to benefit from market fluctuations.

The IRS requires a DCP participant to start receiving mandatory account distributions at retirement, or by April of the year after the participant turns 70 ½ years old, whichever comes later.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust by the WSIB, as set forth under RCW 43.33A.030, for the exclusive benefit of the DCP participants and their beneficiaries. Neither the participant, nor the participant’s beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are non-assignable and non-transferable.

NOTE 8 – RISK MANAGEMENT

The District purchases insurance through local agents as shown below:

AGENT	COVERAGE	LIMIT	DEDUCTIBLE
Hub International Northwest LLC for The Cincinnati Insurance Company	Commercial Package:		
	Property – Per Occurrence	Blanket	10,000
	General Liability	1,000,000 - 3,000,000	Varies
	Crime & Fidelity	500,000	5,000
	Inland Marine	Varies	1,000
	Automobile – BI and PD	1,000,000	500
	Public Officials (D&O)	5,000,000	10,000
	Boiler and Machinery	Blanket	10,000
	Employment Practices	5,000,000	10,000
	Commercial Umbrella	10,000,000	
	Public Officials Bonds	50,000	
	Franchise & Permit, WA State DOT	10,000	
	Street Obstruction Bond-Spokane Co	10,000	
HISCOX	Professional Liability – Each Claim	2,000,000	1,000
HARTFORD	Cyber Liability	1,000,000	2,500
HUB/TRAVELERS	Notary Bonds	10,000	
Assoc of Wa Cities	Group Medical, Vision, Life & AD&D, Dental	Varies	Varies

NOTE 9 – JOINT VENTURE

Spokane Aquifer Joint Board

The District became a member of the Spokane Aquifer Joint Board in June 1995. The Board was formed in accordance with and authorized by RCW 39.34, Washington Interlocal Cooperation Act.

The activities of the Board all relate to the protection of the Spokane Valley/Rathdrum Prairie Aquifer public water supply; however, its main focus is to eliminate the duplication of effort in developing required wellhead protection plans for each Spokane County public water system, to insure that a coordinated effort is made to enforce the plans, and to collectively ensure ongoing aquifer protection education programs and contaminant source inventories. Each member district bears its share of administrative costs and project costs, which are minimal, that are based on the benefit each derives from the project.

NOTE 10 – CONTINGENT LIABILITIES & LITIGATION

As discussed in Note 3, the District has a number of public and private loans and is contingently liable for the repayment of the debt. These loans are subject to audit by the grantors or their representatives.

The District is not aware of any litigation issues.

NOTE 11 – SUBSEQUENT EVENTS

The District implemented a 5% increase in water rates effective January 1, 2022. Other rates for miscellaneous services are being evaluated.

The District was approved by Drinking Water State Revolving Fund and Public Works Trust Fund in the amounts of \$5,050,000 and \$1,562,000 respectively for the purpose of constructing a 3 mile, 24” water main from Zone 3 to Zone 8 which bid in January 2022 with construction to begin in the spring of 2022. These are 20-year, low interest, draw down reimbursed loans with interest on all draws until project completion at which time they will be converted to long term notes with principal and interest payments beginning one year after project completion.

NOTE 12 – COVID-19 Pandemic

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in person interactions.

The District proactively implemented safety measures, and initially in 2020 operations continued with staff rotating from the office and remotely. Management made the decision mid-year 2020 to bring all staff back into the office. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the District has not experienced any direct financial or operational impacts due to the pandemic.

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

REQUIRED SUPPLEMENTARY INFORMATION

WHITWORTH WATER DISTRICT #2
 Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2021
 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	20X4	20X3	20X2
Employer's proportion of the net pension liability (asset)	% 0.007433%	0.007876%	0.007860%	0.007648%	0.008214%	0.007605%	0.008300%			
Employer's proportionate share of the net pension liability	\$ 90,774	278,065	302,245	341,562	389,761	708,424	434,167			
TOTAL	\$ 90,774	278,065	302,245	341,562	389,761	408,424	434,167			
Covered payroll	\$ 1,319,863	1,225,893	1,175,523	1,006,847	1,009,274	934,356	951,685			
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 6.88%	22.68%	25.71%	33.92%	38.62%	43.71%	45.62%			
Plan fiduciary net position as a percentage of the total pension liability	% 88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%			

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

WHITWORTH WATER DISTRICT #2
 Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3
 As of June 30, 2021
 Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	20X4	20X3	20X2
Employer's proportion of the net pension liability (asset)	% 0.009547%	0.010309%	0.010144%	0.009866%	0.010566%	0.009757%	0.0010729%			
Employer's proportionate share of the net pension liability (asset)	\$ (951,035)	131,846	98,533	168,453	367,118	491,257	383,353			
TOTAL	\$ (951,035)	131,846	98,533	168,453	367,118	491,257	383,353			
Covered payroll	\$ 1,319,863	1,225,893	1,175,523	1,006,847	1,009,274	934,356	951,685			
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	% -72.06%	10.76%	8.38%	16.73%	36.37%	52.58%	40.28%			
Plan fiduciary net position as a percentage of the total pension liability	% 120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%			

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

WHITWORTH WATER DISTRICT #2
Schedule of Employer Contributions
PERS 1

For the year ended December 31, 2021
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	20X4	20X3	20X2
Statutorily or contractually required contributions	\$ 55,964	58,811	58,032	50,987	49,574	46,473	42,034			
Contributions in relation to the statutorily or contractually required contributions***	\$ (55,964)	(58,811)	(58,032)	(50,987)	(49,574)	(46,473)	(42,034)			
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0			
Covered payroll**	\$ 1,319,863	1,225,893	1,175,523	1,006,847	1,009,274	974,270	953,237			
Contributions as a percentage of covered payroll %	4.24%	4.80%	4.94%	5.06%	4.91%	4.77%	4.41%			

Notes to Schedule:

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

REQUIRED SUPPLEMENTARY INFORMATION

WHITWORTH WATER DISTRICT #2
Schedule of Employer Contributions
PERS 2/3

For the year ended December 31, 2021
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	20X4	20X3	20X2
Statutorily or contractually required contributions	\$ 93,353	97,091	90,856	75,515	69,816	60,697	54,033			
Contributions in relation to the statutorily or contractually required contributions	\$ (93,353)	(97,091)	(90,856)	(75,515)	(69,816)	(60,697)	(54,033)			
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0			
Covered payroll	\$ 1,319,863	1,225,893	1,175,523	1,006,847	1,009,274	974,270	953,237			
Contributions as a percentage of covered payroll %	7.07%	7.92%	7.73%	7.50%	6.92%	6.23%	5.67%			

Notes to Schedule:

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

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.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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