



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Whitworth Water District No. 2

For the period January 1, 2022 through December 31, 2022

Published July 20, 2023

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

July 20, 2023

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on Whitworth Water District No. 2's financial statements and compliance with federal laws and regulations.

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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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	8
Independent Auditor's Report on the Financial Statements.....	12
Financial Section.....	16
About the State Auditor's Office.....	17

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Whitworth Water District No. 2 January 1, 2022 through December 31, 2022

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Whitworth Water District No. 2 are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
21.027	Covid-19 – Coronavirus State and Local Fiscal Recovery Funds
66.468	Drinking Water State Revolving Fund Cluster – Drinking Water State Revolving Fund

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The District did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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, 2022 through December 31, 2022

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, 2022, 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 20, 2023.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

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 20, 2023

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Whitworth Water District No. 2 January 1, 2022 through December 31, 2022

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Whitworth Water District No. 2, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2022. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance 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 opinion on

compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed; and

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

June 20, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Whitworth Water District No. 2 January 1, 2022 through December 31, 2022

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

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 December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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.

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 required supplementary information listed in the financial section of our report 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023 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 style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

June 20, 2023

FINANCIAL SECTION

Whitworth Water District No. 2 January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022

Statement of Revenues, Expenses, and Changes in Fund Balance – 2022

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2022

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2022

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2022

Notes to the Schedule of Expenditures of Federal Awards – 2022

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, 2022 with a comparison at the end of December 31, 2021 which was audited in the previous year. 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 received or not, and expenses are recognized and matched with the related revenues of the period, whether paid or not.

FINANCIAL HIGHLIGHTS

The District reported its Net Position as of December 31, 2022 in the amount of \$49.1 million, as compared with \$45.16 million in 2021. The increase in 2022 was in part due to the receipt of ARPA grant revenue and above normal water usage attributable to the unusually long hot dry season and residential development in the district.

The Current Assets increased from \$7.21 million in 2021 to \$8.49 million in 2022. This was in part due to a large receivable for reimbursement from expenses paid on a major project in progress and an expected insurance claim. All other current assets were stable from 2021 to 2022. Restricted Assets are used for long term debt repayment and for construction projects. Restricted Assets increased from \$2.79 million in 2021 to \$3.07 million in 2022. Increase was due to accrual of new Principal & Interest reserves for new long term loans obtained in 2022.

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, 2022. Detailed information about the District's capital assets is included in Note 2 of the Notes to the Financial Statement.

Net Position			
	2022	2021	Change
Current Assets	\$ 8,486,171	\$ 7,211,495	\$ 1,274,676
Restricted Assets	3,069,450	2,786,683	282,767
Non-Current, Including Capital Assets	54,114,369	50,392,373	3,721,996
Net Pension Asset	402,959	951,035	(548,076)
Total Assets	\$ 66,072,949	\$ 61,341,586	\$ 4,731,363
Deferred Outflows of Resources	414,118	139,154	274,964
Total Assets & Outflows	\$ 66,487,067	\$ 61,480,740	\$ 5,006,327
Current Liabilities	\$ 1,861,578	\$ 1,680,360	\$ 181,218
Non-Current Liabilities	14,787,528	13,267,682	1,519,846
Total Liabilities	\$ 16,649,106	\$ 14,948,042	\$ 1,701,064
Deferred Inflows of Resources	\$ 739,195	\$ 1,369,551	\$ (630,356)
Total Liabilities & Inflows	\$ 17,388,301	\$ 16,317,593	\$ 1,070,708
Invested in Capital Assets Net of Related Debt	\$ 38,493,687	\$ 36,375,075	\$ 2,118,612
Restricted for Debt, Construction & Pension	3,472,409	3,737,718	(265,309)
Unrestricted	7,132,669	5,050,354	2,082,315
Total Net Position	\$ 49,098,766	\$ 45,163,147	\$ 3,935,618
Total Net Position and Liabilities	\$ 66,487,067	\$ 61,480,740	\$ 5,006,326

Description of Capital Assets

The Capital Assets increase for 2022, was due to Construction in Progress on the 3-8 Transmission Main for construction and engineering services. Project will be complete in 2023. Certain expenses captured in Construction in Progress were expensed rather than capitalized. Contributions from developers totaled \$202,237.

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			
	2022	2021	Change
Total Operating Revenue	\$ 7,370,642	\$ 7,062,440	\$ 308,202
Total Operating Expense	(5,954,559)	(5,541,403)	(413,156)
Net Operating Income (Loss)	\$ 1,416,083	\$ 1,521,037	\$ (104,954)
Non-Operating Revenue	\$ 2,623,387	\$ 42,500	\$ 2,580,887
Non-Operating Expense	(306,087)	(251,992)	(54,095)
Net Non-Operating Income (Loss)	\$ 2,317,300	\$ (209,492)	\$ 2,526,792
Net Income(Loss) prior to Contributions	\$ 3,733,382	\$ 1,311,545	\$ 2,421,837
Capital Contributions	202,237	253,394	(51,157)
Change in Net Position	\$ 3,935,619	\$ 1,564,940	\$ 2,370,679
Beginning Net Position	\$ 45,163,147	\$ 43,598,207	\$ 1,564,940
Prior Period Adjustments			
Change in Net Position	3,935,619	1,564,940	2,370,679
Ending Net Position	\$ 49,098,766	\$ 45,163,147	\$ 3,935,619

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 4.36% in operating revenue with an increase of 7.46% in operating expenses from 2021 to 2022.

Contributions

Capital Contributions relate to facilities donated to the District by Developers who have paid for their design and installation. There were two small developer capital contributions made to the District in 2022.

Contributions			
	2022	2021	Change
Contributions	\$ 202,237	\$ 253,394	\$ 51,157

Long Term Debt

During the 2022 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 2022, the District secured loans from Wa State Public Works and Wa State Dept of Health DWSRF program for a major transmission line from System 3 to System 8. 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, 2022 and 2021 is as follows:

Long Term Debt			
	2022	2021	Change
Public Works Trust Fund	\$ 3,924,463	\$ 2,815,844	\$ 1,108,619
Drinking Water State Revolving Fund	3,701,219	2,626,455	1,074,764
Refund Water Revenue Bond 2019	3,050,000	3,280,000	(230,000)
Water Revenue Bond 2020	4,945,000	5,295,000	(350,000)
Total Long Term Debt	\$ 15,620,682	\$ 14,017,299	\$ 1,603,383

District's Position

In reviewing the 2022 Financials and noting the 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.

STATEMENT OF NET POSITION

December 31, 2022 & 2021

<u>ASSETS</u>	2022	2021
Current Assets:		
Cash and Cash Equivalents	\$ 462,251	\$ 346,503
Temporary Investments	\$ 5,467,606	\$ 5,574,375
Receivables	\$ 358,895	\$ 386,882
Receivables - Other	\$ 1,617,628	\$ 373,352
Inventories	\$ 525,259	\$ 481,056
Prepayments	\$ 54,532	\$ 49,327
Other Current Assets	\$ -	\$ -
<u>Sub Total</u>	<u>\$ 8,486,171</u>	<u>\$ 7,211,495</u>
Restricted Assets:		
Debt Service, Deposits, Replacements	\$ 1,772,771	\$ 1,465,140
Construction Accounts	\$ 1,296,679	\$ 1,321,543
<u>Sub Total</u>	<u>\$ 3,069,450</u>	<u>\$ 2,786,683</u>
TOTAL CURRENT ASSETS	<u>\$ 11,555,621</u>	<u>\$ 9,998,178</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated		
Land	\$ 2,089,100	\$ 1,952,955
Construction In Progress	\$ 5,841,674	\$ 1,111,042
Capital Assets Being Depreciated		
Plant	\$ 71,716,458	\$ 70,876,756
Building, Machinery and Equipment	\$ 6,680,369	\$ 6,587,460
Less Accumulated Depreciation	\$ (32,213,232)	\$ (30,135,840)
Total Capital Assets (Net)	<u>\$ 54,114,369</u>	<u>\$ 50,392,373</u>
Net Pension Assets	\$ 402,959	\$ 951,035
TOTAL NONCURRENT ASSETS	<u>\$ 54,517,328</u>	<u>\$ 51,343,408</u>
<u>TOTAL ASSETS</u>	<u>\$ 66,072,949</u>	<u>\$ 61,341,586</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows - Pensions	\$ 414,118	\$ 139,154
<u>TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES</u>	<u>\$ 66,487,067</u>	<u>\$ 61,480,740</u>

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

STATEMENT OF NET POSITION
December 31, 2022 & 2021

<u>LIABILITIES</u>	2022	2021
Current Liabilities:		
Accounts Payable	\$ 88,807	\$ 215,220
TOTAL CURRENT LIABILITIES	<u>\$ 88,807</u>	<u>\$ 215,220</u>
Payables from Restricted Assets:		
Debt Principal - DWSRF, PWTF & BOND	\$ 1,469,027	\$ 1,213,148
Debt Interest - DWSRF, PWTF & BOND	\$ 303,744	\$ 251,992
TOTAL PAYABLES FROM RESTRICTED ASSETS	<u>\$ 1,772,771</u>	<u>\$ 1,465,140</u>
Noncurrent Liabilities:		
Compensated Absences	\$ 403,378	\$ 372,759
Other Long Term Debt (less principal)	\$ 14,151,654	\$ 12,804,150
Net Pension Liability	\$ 232,495	\$ 90,774
TOTAL NONCURRENT LIABILITIES	<u>\$ 14,787,528</u>	<u>\$ 13,267,683</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 16,649,106</u>	<u>\$ 14,948,043</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflow - Pension	\$ 438,168	\$ 999,968
Deferred Inflow - Assessments	\$ 301,027	\$ 369,583
TOTAL INFLOWS OF RESOURCES	<u>\$ 739,195</u>	<u>\$ 1,369,551</u>
<u>TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES</u>	<u>\$ 17,388,301</u>	<u>\$ 16,317,593</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	\$ 38,493,687	\$ 36,375,075
Restricted for Debt and Construction	\$ 3,472,409	\$ 3,737,718
Unrestricted	\$ 7,132,669	\$ 5,050,354
TOTAL NET POSITION	<u>\$ 49,098,766</u>	<u>\$ 45,163,147</u>
<u>TOTAL NET POSITION AND LIABILITIES</u>	<u>\$ 66,487,067</u>	<u>\$ 61,480,740</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For Year Ending December 31, 2022 & 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Utility Sales and Service Fees	\$ 5,719,684	\$ 5,839,367
Other Charges for Services	\$ 1,650,958	\$ 1,223,073
Total Operating Revenue	\$ 7,370,642	\$ 7,062,440
<u>OPERATING EXPENSES:</u>		
Operations:		
General Operations	\$ 1,591,679	\$ 1,213,320
Cost of Power	\$ 822,568	\$ 938,848
Maintenance	\$ 603,061	\$ 608,442
Customer Services	\$ 649,227	\$ 603,638
Depreciation/Amortization/ Depletion	\$ 2,077,392	\$ 1,977,512
Payroll, Property, Excise & B&O Taxes	\$ 106,347	\$ 102,818
Insurance, Claims & Expenses	\$ 104,285	\$ 96,824
Total Operating Expenses	\$ 5,954,559	\$ 5,541,403
OPERATING INCOME (LOSS)	\$ 1,416,083	\$ 1,521,037
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest and Investment Revenue	\$ 133,615	\$ 13,421
Misc. Nonoperating Income & Expenses	\$ 42,362	\$ 33,179
Gains (Losses) on Capital Asset Disposition	\$ -	\$ (4,100)
Grant Revenue	\$ 2,447,410	\$ -
Other Nonoperating Expenses - Interest Expense	\$ (306,087)	\$ (251,992)
Total Nonoperating Revenues (Expenses)	\$ 2,317,299	\$ (209,492)
Income Before Contributions, Transfers Extraordinary and Special Items	\$ 3,733,382	\$ 1,311,545
Capital Contributions	\$ 202,237	\$ 253,394
CHANGE IN NET POSITION	\$ 3,935,619	\$ 1,564,940
TOTAL NET POSITION, January 1	\$ 45,163,147	\$ 43,598,207
Prior Period Adjustments	\$ -	
Change in Net Position (Stmt of Revenues)	\$ 3,935,619	\$ 1,564,940
TOTAL NET POSITION, December 31	\$ 49,098,766	\$ 45,163,147

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

Statement of Cash Flows
For the Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,154,353
Cash payments to suppliers for goods and services	(1,826,781)
Cash payments to employees for service & benefits	(2,004,001)
Net Cash Provided by Operating Activities	<u>\$ 2,323,571</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Proceeds from fiduciary collections - street lights	\$ 172,551
Payments on fiduciary responsibilities	\$ (172,551)
Net Cash Provided by (used for) Noncapital Financing Activities	<u>\$ -</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Public Works Trust Fund loans	\$ 1,562,000
Proceeds from Spokane County ARPA Grant	\$ 2,447,410
Acquisition and construction of capital assets	\$ (4,747,096)
Principal payments made on revenue bond maturities and other long-term debt	\$ (1,215,780)
Interest paid on revenue bonds and other long-term debts	\$ (254,335)
Proceeds from sale of equipment	\$ -
Non-Operating Income	\$ 42,362
Cash proceeds from contributions in aid of construction	\$ -
Net Cash used by Capital and Related Financing Activities	<u>\$ (2,165,440)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	\$ 133,615
Net Cash provided by Investing Activities	<u>\$ 133,615</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 291,746</u>
Cash and Cash Equivalents at Beginning of Year	\$ 8,707,561
Cash and Cash Equivalents at End of Year	<u>\$ 8,999,307</u>
 Reconciliation of Cash and Cash Equivalents	
Cash and investments	\$ 5,929,857
Other restricted cash and investments	3,069,450
Cash and Cash Equivalents at End of Year	<u>\$ 8,999,307</u>

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

Statement of Cash Flows
For the Year Ended December 31, 2022

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

Operating Income (Loss)	\$ 1,416,083
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	2,077,392
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable	(1,216,288)
(Increase) decrease in materials and supplies	(44,203)
(Increase) decrease in prepaid expenses	(5,205)
Increase (decrease) in accounts payable	95,794
Total Adjustments	907,489
Net Cash provided by operating activities	\$ 2,323,571

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Non-cash contributions in aid of construction	\$ 202,237
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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, 2022 through December 31, 2022

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 2022 include the following:

	2022	2021
Long Term Debt Reserve Accounts (See Note 3)	\$ 1,772,771	\$ 1,465,140
Construction Capital Improvements (Future)		
LGIP	\$ 1,278,057	\$ 1,306,962
Washington Trust	<u>18,622</u>	<u>14,581</u>
Total	\$ 3,069,450	\$ 2,786,683

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. Also, the District had receivable amounts due from lending agencies for construction in progress and from an insurance claim.

	2022	2021
Accounts Receivable – Customers	\$ 358,895	\$ 386,882
Accounts Receivable - Other		
Accounts Receivable – Assessments/Repayment Plan	\$ 303,048	\$ 373,352
Accounts Receivable – DWSRF Reimbursement #1	1,207,163	0
Accounts Receivable – Spokane County	20,417	0
Accounts Receivable – Cincinnati Insurance	87,000	0
Total Accounts Receivable – Other	<u>\$ 1,617,628</u>	<u>373,352</u>
Total Receivables	\$ 1,976,523	\$ 760,234

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, 2022 and December 31, 2021 is noted below.

ID #	Year	Compensated Absences	Beginning Balance 01/01/2022	Additions	Reductions	Ending Balance 12/31/2022
259.12	2022	Sick	\$ 309,990	\$ 73,603	\$ 49,578	\$ 334,015
		Vacation	\$ 62,769	\$ 107,892	\$ 101,298	\$ 69,363
		Total	<u>\$ 372,759</u>	<u>\$ 181,495</u>	<u>\$ 150,876</u>	<u>\$ 403,378</u>
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>

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	5
Electronics	5
Vehicles	10
Equipment	10
Meters/Hydrants	20
Buildings	20
New Office/Shop Complex	40
Transmission/Distribution Systems	40

A summary of changes in capital assets as of December 31, 2022 and December 31, 2021 follows:

1/1/2022 through 12/31/2022

	Balance 1/1/2022	Increase	Decrease	Balance 12/31/2022
Utility Plant Not Being Depreciated				
Land	\$ 1,952,955	\$ 136,145	\$ 0	\$ 2,089,100
Construction in Progress	\$ 1,111,042	\$ 5,198,321	\$ 467,689	\$ 5,841,674
Total Plant Not Being Depreciated	<u>\$ 3,063,997</u>	<u>\$ 5,334,466</u>	<u>\$ 467,689</u>	<u>\$ 7,930,774</u>
Utility Plant Being Depreciated				
Buildings, Plant	\$ 76,125,087	\$ 851,511	\$ 0	\$ 76,976,598
Equipment	\$ 1,339,129	\$ 81,100	\$ 0	\$ 1,420,229
Total Plant Being Depreciated	<u>\$ 77,464,216</u>	<u>\$ 932,611</u>	<u>\$ 0</u>	<u>\$ 78,396,827</u>
Less: Accumulated Depreciation	<u>\$ (30,135,841)</u>	<u>\$ (2,077,392)</u>	<u>\$ 0</u>	<u>\$ (32,213,233)</u>
Total Plant Being Depreciated, Net	\$ 47,328,375	\$ (1,144,781)	\$ 0	\$ 46,183,594
Net Capital Assets	<u><u>\$ 50,392,372</u></u>	<u><u>\$ 4,189,685</u></u>	<u><u>\$ 467,689</u></u>	<u><u>\$ 54,114,368</u></u>

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	<u>\$ 4,794,240</u>	<u>\$ 2,856,255</u>	<u>\$ 4,586,498</u>	<u>\$ 3,063,997</u>
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	<u>\$ 72,171,532</u>	<u>\$ 5,349,227</u>	<u>\$ 56,543</u>	<u>\$ 77,464,216</u>
Less: Accumulated Depreciation	<u>\$ (28,205,772)</u>	<u>\$ (1,979,151)</u>	<u>\$ 7,461</u>	<u>\$ (30,135,841)</u>
Total Plant Being Depreciated, Net	\$ 43,965,760	\$ 3,370,076	\$ 5,881	\$ 47,328,375
Net Capital Assets	<u><u>\$ 48,760,000</u></u>	<u><u>\$ 6,226,331</u></u>	<u><u>\$ 4,593,959</u></u>	<u><u>\$ 50,392,372</u></u>

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 19.66% of the District's Operating Revenues. The total principal and interest remaining to be paid on the loans is \$19,807,536. Principal and interest paid for the current year was \$1,215,780 and \$252,867 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:

- 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.
- 3-8 Transmission Main: 2021, \$1,562,000 20-year, .94% loan until project closeout then .44% thereafter. Annual principal payment is approximately \$82,211 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.
- 3-8 Transmission Main: 2021, \$5,050,000 20-year, 1.75% interest loan until the project closeout then 1% thereafter. This is a reimbursement loan for project expenses. District doesn't anticipate using the full amount of the loan. Through 2022, district has been reimbursed a total of \$1,257,163.

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:				
Year ending 12/31		Principal	Interest	Total
	2023	\$ 1,469,027	\$ 303,744	\$ 1,772,771
	2024	1,484,027	281,365	1,765,392
	2025	1,494,027	258,680	1,752,707
	2026	1,376,961	235,692	1,612,653
	2027	1,206,847	212,998	1,419,845
	2028-2032	6,158,036	724,386	6,882,422
	2033 & beyond	4,350,593	251,153	4,601,746
Total Outstanding Debt		\$ 17,539,518	\$ 2,268,018	\$ 19,807,536

Summary of Long-Term Debt is as follows for 2022 and 2021:

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2022	Additions	Reductions	Outstanding Debt 12/31/2022
263.88 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 528,263		\$ 132,066	\$ 396,197
263.88 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 925,571		\$ 185,114	\$ 740,457
263.88 Big Meadow Regular	Mains	2011	2031	\$ 1,362,010		\$ 136,201	\$ 1,225,809
263.84 DWSRF Chattaroy Hills	Mains, Pump Station	2013	2035	\$ 980,801		\$ 70,057	\$ 910,744
263.84 DWSRF Bernhill	Mains, Pump Station	2014	2036	\$ 1,207,068		\$ 80,471	\$ 1,126,597
263.84 DWSRF Chattaroy/Yale Rd	Mains	2014	2036	\$ 438,586		\$ 29,239	\$ 409,347
263.61 Key Bank Refunded Commerce Bank	Administratio n/Office Complex	2019	2034	\$ 3,280,000		\$ 230,000	\$ 3,050,000
263.61 Key Bank Commerce Bank	Reservoir/ Future Infrastructure	2020	2034	\$ 5,295,000		\$ 350,000	\$ 4,945,000
263.82 PWB 3-8 Transmission Main	Mains	2021	2041	\$ 0	\$ 1,562,000	\$ 0	\$ 1,562,000
66.468 DWSRF 3-8 Transmission Main	Mains	2021	2041	\$ 0	\$ 1,257,163	\$ 2,632	\$ 1,254,531
Total				\$ 14,017,299	\$ 2,819,163	\$ 1,215,780	\$ 15,620,682

ID No.	Purpose	Date of Original Issue	Date of Maturity	Outstanding Debt 01/01/2021	Additions	Reductions	Outstanding Debt 12/31/2021
263.82 PWTF – Midway to Panorama	Main, Booster, Reservoir	2001	2021	\$ 111,534		\$ 111,534	\$ 0
263.82 PWTF – N. Colbert	Mains, Booster, Reservoir	2005	2025	\$ 660,329		\$ 132,066	\$ 528,263
263.82 PWTF Perry Rd N	Mains, Booster, Reservoir	2006	2026	\$ 1,110,685		\$ 185,114	\$ 925,571
263.82 Big Meadow Regular	Mains	2011	2031	\$ 1,498,211		\$ 136,201	\$ 1,362,010
263.82 DWSRF Chattaroy Hills	Mains, Pump Station	2013	2035	\$ 1,050,858		\$ 70,057	\$ 980,801
263.82 DWSRF Bernhill	Mains, Pump Station	2014	2036	\$ 1,287,539		\$ 80,471	\$ 1,207,068
263.82 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	\$ 0	\$ 340,000	\$ 5,295,000
Total				\$ 15,321,981	\$ 0	\$ 1,304,682	\$ 14,017,299

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 2022 & 2021 are stated as follows:

DEPOSITS & INVESTMENTS		
	2022	2021
CASH ON HAND	\$ 400	\$ 400
BANK DEPOSIT ACCOUNTS	480,473	360,684
LGIP INVESTMENTS	8,518,434	8,346,477
TOTAL DEPOSITS & INVESTMENTS	\$ 8,999,307	\$ 8,707,561

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

NOTE 5 – CONSTRUCTION IN PROGRESS

As of December 31, 2022, Construction in Progress consisted of the following:

2022			
Projects	Estimated Project Authorization	Expended through 12/31/2022	Remaining Commitment
1.5 MG Hatch Reservoir	\$ 4,181,000	\$ 25,293	\$ 4,155,707
3-8 Transmission Main	7,300,000	5,362,224	1,937,776
System 2 Well	3,299,000	440,013	2,858,987
Misc District Projects	150,000	14,144	135,856
Total of Projects in Progress	\$ 14,930,000	\$ 5,841,674	\$ 9,088,326

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

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$ (232,495)
Pension Assets	\$ 402,959
Deferred Outflows of Resources	\$ 414,110
Deferred Inflows of Resources	\$ (438,165)
Pension Expense/expenditures	\$ (6,182)

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 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer	Employee
January - August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	.18%	
Total	10.25%	6.36%
September - December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	.18%	
Total	10.39%	6.36%

The District’s actual PERS plan contributions were \$52,297 to PERS Plan 1 and \$88,488 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. 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 *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan’s normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.0%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), 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.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

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 7.0% 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 7.0% was determined using a building-block-method. In selecting this assumption, 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

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% 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%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	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%, 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%) or 1-percentage point higher (8%) than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	\$ 310,610	\$ 232,495	\$ 164,319
PERS 2/3	\$ 474,537	\$ (402,959)	\$ (1,123,878)

*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, 2022, the District reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ (232,495)
PERS 2/3	\$ 402,959

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	.007433%	.008350%	.000917%
PERS 2/3	.009547%	.010865%	.001318%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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, 2022, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 129,641
PERS 2/3	\$ (135,823)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, 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	(\$ 38,531)
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	\$ 28,766	\$ 0
TOTAL	\$ 28,766	(\$ 38,531)
PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99,844	(\$ 9,122)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 297,911)
Changes of assumptions	\$ 224,594	(\$ 58,807)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 12,758	(\$ 33,794)
Contributions subsequent to the measurement date	\$ 48,148	\$ 0
Rounding to match Financials	\$ 8	(\$ 3)
TOTAL	\$ 385,352	(\$ 399,637)
TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99,844	(\$ 9,122)
Net difference between projected and actual investment earnings on pension plan investments	\$ 0	(\$ 336,442)
Changes of assumptions	\$ 24,594	(\$ 58,807)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 12,758	(\$ 33,794)
Contributions subsequent to the measurement date	\$ 76,914	\$ 0
Rounding to match Financials	\$ 8	(\$ 3)
TOTAL	\$ 414,118	(\$ 438,168)

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, 2023. 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
2023	(\$ 16,306)	(\$ 93,752)
2024	(\$ 14,810)	(\$ 87,032)
2025	(\$ 18,578)	(\$ 102,770)
2026	\$ 11,162	\$ 132,599
2027		\$ 43,813
Thereafter		\$ 44,704
Total	(\$ 38,531)	(\$ 62,438)

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.

Regarding any loss contingency, the District draws your attention to the following: In November 2021, Whitworth Water District #2 (“District”) procured ductile iron pipe and gaskets manufactured by McWane Ductile, Inc. (“McWane”) in connection with the District project commonly referred to as “Zone 3 to Zone 8 Transmission Main Re-Bid for Whitworth Water District No. 2, Project No. 51063.09” (the “Project”). As a result of alleged defects or deficiencies associated with the McWane product experienced in 2022, the contractor for the Project, Halme Construction, Inc. (“Halme”) has made a claim to the District for an adjustment of the price or terms under the public works contract between Halme and the District. The District has not accepted responsibility for any portion of the Halme claim, and has tendered the claim to McWane for consideration. At this time, the District, McWane and Halme are exploring dispute resolution opportunities, and it is not anticipated there will be any material financial impact to the District as a result of this matter.

NOTE 11 – SUBSEQUENT EVENTS

The District implemented a 10% increase in water rates effective January 1, 2023. The District also raised the General Facilities Charge to connect to the system to \$4,300 per Equivalent Residential Unit. Other rates for miscellaneous services are being evaluated.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 1

As of June 30, 2022
 Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	20X4	20X3
Employer's proportion of the net pension liability (asset) %	0.008350%	0.007433%	0.007876%	0.007860%	0.007648%	0.008214%	0.007605%	0.008300%		
Employer's proportionate share of the net pension liability \$	232,495	90,774	278,065	302,245	341,562	389,761	708,424	434,167		
TOTAL \$	232,495	90,774	278,065	302,245	341,562	389,761	408,424	434,167		
Covered payroll \$	1,391,322	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 %	16.71%	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 %	76.56%	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 - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
 Schedule of Proportionate Share of the Net Pension Liability
 PERS 2/3
 As of June 30, 2022
 Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	20X4	20X3
Employer's proportion of the net pension liability (asset)	% 0.010865%	0.009547%	0.010309%	0.010144%	0.009866%	0.010566%	0.009757%	0.0010729%		
Employer's proportionate share of the net pension liability (asset)	\$ (402,959)	(951,035)	131,846	98,533	168,453	367,118	491,257	383,353		
TOTAL	\$ (402,959)	(951,035)	131,846	98,533	168,453	367,118	491,257	383,353		
Covered payroll	\$ 1,391,322	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	% -28.96%	-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	% 106.73%	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 - State Sponsored Plans

WHITWORTH WATER DISTRICT #2
 Schedule of Employer Contributions
 PERS 1
 For the year ended December 31, 2022
 Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	20X4	20X3
Statutorily or contractually required contributions	\$ 52,297	55,964	58,811	58,032	50,987	49,574	46,473	42,034		
Contributions in relation to the statutorily or contractually required contributions***	\$ (52,297)	(55,964)	(58,811)	(58,032)	(50,987)	(49,574)	(46,473)	(42,034)		
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0	0		
Covered payroll**	\$ 1,391,322	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	% 3.76%	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 - State Sponsored Plans

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

For the year ended December 31, 2022
Last 10 Fiscal Years*

	2022	2021	2020	2019	2018	2017	2016	2015	20X4	20X3
Statutorily or contractually required contributions	\$ 88,488	93,353	97,091	90,856	75,515	69,816	60,697	54,033		
Contributions in relation to the statutorily or contractually required contributions	\$ (88,488)	(93,353)	(97,091)	(90,856)	(75,515)	(69,816)	(60,697)	(54,033)		
Contribution deficiency (excess)	\$ 0	0	0	0	0	0	0	0		
Covered payroll	\$ 1,391,322	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	% 6.36%	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.

**Whitworth Water District No. 2
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Spokane County)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	22ARP1002	2,447,410	-	2,447,410	-	1,3
Drinking Water State Revolving Fund Cluster								
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Wa Dept of Health)	Drinking Water State Revolving Fund	66.468	DWL26064	1,207,163	-	1,207,163	-	1,3
Total Drinking Water State Revolving Fund Cluster:				1,207,163	-	1,207,163	-	
Total Federal Awards Expended:				3,654,573	-	3,654,573	-	

The accompanying notes are an integral part of this schedule.

Whitworth Water District
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the district's financial statements. The district uses the accrual basis of accounting.

Note 2 – Federal Indirect Cost Rate

The District did not elect to use any indirect cost rates.

Note 3 – Federal Loans

The district was approved by the Wa Dept of Health administered by the Environmental Protection Agency to receive a loan totaling \$5,000,000 for improvements to our drinking water system on a reimbursement basis. To date we have asked for draws in the amount of \$1,207,163.

The district was approved by Spokane County to receive a \$4,000,000 grant from the Dept of the Treasury for COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS for improvements to our drinking water transmission system. To date we have asked for draws in the amount of \$2,447,410.

Note 4 – Prior Period Expenditures

The District's fiscal year 2022 SEFA includes \$263,155.53 in Coronavirus Sate and Local Fiscal Recovery Fund (ALN 21.027) expenditures that occurred in fiscal year 2021. This is because the District was not awarded the grant until June 2022, but was allowed to claim reimbursement for expenditures that occurred from March 2021 forward.

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.

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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.

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