



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Terrace Heights Sewer District

For the period January 1, 2019 through December 31, 2021

Published August 21, 2023

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

August 21, 2023

Board of Commissioners
Terrace Heights Sewer District
Yakima, Washington

Report on Financial Statements

Please find attached our report on the Terrace Heights Sewer District's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Terrace Heights Sewer District January 1, 2019 through December 31, 2021

2021-002 The District's internal controls over preparing its financial statements were inadequate for ensuring accurate reporting.

Background

District management, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. Management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance the District's financial statements, notes and required schedules are reliable, prepared and presented fairly in accordance with the *Budgeting, Accounting and Reporting System (BARS) Manual*.

Our audit identified deficiencies in the District's internal controls that hindered its ability to produce accurate financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses in internal controls, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit found deficiencies in the District's internal controls over financial reporting that, when taken together, represent a material weakness. Specifically, the District did not:

- Have a process in place to adequately research BARS requirements for calculating and reporting pension liabilities and new debt on the Schedule of Liabilities and classifying revenues and expenditures
- Perform a monthly reconciliation of its general ledger to its bank statements and the County Treasurer's report to ensure that all revenues collected and expenses paid were reported correctly on the financial statements. Specifically, the District did not categorize all revenues and expenses in the general ledger within an appropriate revenue and expense BARS code, and it excluded amounts from the financial statements that were classified as "uncategorized" in its accounting system.

- Establish a secondary review process to detect and correct errors before submitting the annual financial report for audit

Cause of Condition

This was the District's first financial audit, and management did not dedicate sufficient time to perform the necessary research to understand how to report information on the financial statements. Specifically, District management misunderstood guidance on how to report pension liabilities and when to report new debt on the Schedule of Liabilities. Further, District staff followed the same practices as prior staff when coding revenues and expenses and did not understand that all transactions had to be reported within appropriate BARS codes. Also, prior staff incorrectly advised current staff that any transactions listed as "uncategorized" should not be reported on the financial statements.

Effect of Condition

The District's financial information contained material errors that management did not detect. Specifically, the District:

- Overstated net pension liability by \$564,607, \$676,396 and \$574,998, for 2019, 2020 and 2021, respectively
- Did not report a new loan from the Washington State Department of Ecology in 2020 or its emergency loan in 2019 on the Schedule of Liabilities. This resulted in understating liabilities by \$226,585, \$289,538 and \$135,532 for 2019, 2020 and 2021, respectively.
- Reported General Obligation (GO) bonds and their interest, which should have been excluded. Additionally, the District did not include the refunded principal left on the loan from 2015 when it was refinanced, which resulted in understating liabilities by \$297,156, \$393,662 and \$486,993 in 2019, 2020 and 2021, respectively.
- Did not ensure cash and investments, revenues and expenditures agreed between the general ledger, bank statements and the County Treasurer's report. As a result, cash and investments, revenues and expenditures were each understated annually by amounts ranging from \$134,000 to \$412,000.
- Classified revenues and expenses of \$226,582 and \$358,930 incorrectly in 2019 and classified expenses of \$446,484 incorrectly in 2021.

Additionally, there were missing note disclosures for pensions, long-term debt, subsequent events, risk management and budgets, and other presentation errors in its notes.

The District corrected all of the errors we identified.

Recommendation

We recommend the District establish and follow effective internal controls over its process for preparing the financial statements. This should include:

- Ensuring employees are trained to present financial statements, required schedules, and notes to the financial statements accurately, completely, and in accordance with the BARS Manual
- Reconciling revenue, expenditures and ending cash and investments between the general ledger, bank statements and the County Treasurer's report
- Researching to understand how to properly classify and report all transactions on the financial statements
- Establishing a secondary review process to detect errors and ensure accuracy

District's Response

Due to this being our first financial audit, we have appreciated the help, patience, and knowledge of the Washington State Auditing staff. Below we have addressed some of the specific changes we have made moving forward to ensure a smoother and more accurate financial reporting process.

Regarding knowledge/application of BARS Manual, reporting requirements, and secondary review:

- *Changes have been made to District staffing in 2023, specifically the addition of 1 full-time office member. This has created 3 full-time office positions to facilitate coverage and enable opportunities for education and training.*
- *The hiring of additional office staff has also addressed and improved the district's ability to provide secondary review processes to detect and correct errors, thus improving accuracy.*

Regarding the monthly reconciliation to Yakima County Treasurers reports and its categorization:

- *Monthly reconciliation is routinely done; however, we have appreciated the services and knowledge of the audit staff in the clarification of the need to ensure complete and consistent categorization in line with the BARS Manual.*
- *Further training and education of all office staff and general manager is planned on a continued ongoing basis for BARS.*
- *The district is exploring options for cost effective, professional accounting assistance to support learning process.*

Auditor's Remarks

We thank the District for its cooperation and assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

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

INDEPENDENT AUDITOR'S REPORT

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*

Terrace Heights Sewer District January 1, 2019 through December 31, 2021

Board of Commissioners
Terrace Heights Sewer District
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Terrace Heights Sewer District, as of and for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated August 15, 2023.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions 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.

However, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 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*. However, we noted certain matters that we have reported to the management of the District in a separate special investigation report dated August 7, 2023.

DISTRICT'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 15, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Terrace Heights Sewer District January 1, 2019 through December 31, 2021

Board of Commissioners
Terrace Heights Sewer District
Yakima, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the Terrace Heights Sewer District, as of and for the years ended December 31, 2021, 2020 and 2019, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of state law and accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Terrace Heights Sewer District, and its changes in cash and investments, for the years ended December 31, 2021, 2020 and 2019, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Terrace Heights Sewer District, as of December 31, 2021, 2020 and 2019, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. 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 unmodified and adverse opinions.

Matter Giving Rise to Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. As described in Note 1 of the financial statements, the financial statements are prepared by the District in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible 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 are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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
- We are required to 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS Manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 August 15, 2023 on our consideration of the District's internal control over financial reporting and on the 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

August 15, 2023

FINANCIAL SECTION

Terrace Heights Sewer District January 1, 2019 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
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SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021
Schedule of Liabilities – 2020
Schedule of Liabilities – 2019

Terrace Heights Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

Beginning Cash and Investments

308	Beginning Cash and Investments	2,824,223
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	88,107
340	Charges for Goods and Services	2,380,461
350	Fines and Penalties	-
360	Miscellaneous Revenues	18,319
Total Revenues:		<u>2,486,887</u>

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	1,386,081
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,386,081</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,100,806</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	72,576
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	11,000
Total Other Increases in Fund Resources:		<u>83,576</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	575,971
591-593, 599	Debt Service	588,177
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>1,164,148</u>

Increase (Decrease) in Cash and Investments: **20,234**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	1,979,420
50841	Committed	-
50851	Assigned	864,788
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,844,208</u>

The accompanying notes are an integral part of this statement.

Terrace Heights Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	2,211,676
388 / 588	Net Adjustments	-

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	86,876
340	Charges for Goods and Services	2,487,732
350	Fines and Penalties	-
360	Miscellaneous Revenues	20,934
Total Revenues:		<u>2,595,542</u>

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	1,314,446
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,314,446</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,281,096</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	62,956
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>62,956</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	157,501
591-593, 599	Debt Service	573,378
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>730,879</u>

Increase (Decrease) in Cash and Investments: **613,173**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	1,779,420
50841	Committed	-
50851	Assigned	1,044,803
50891	Unassigned	-
Total Ending Cash and Investments		<u>2,824,223</u>

The accompanying notes are an integral part of this statement.

Terrace Heights Sewer District
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	2,422,734
388 / 588	Net Adjustments	120,547

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	78,045
340	Charges for Goods and Services	1,967,882
350	Fines and Penalties	-
360	Miscellaneous Revenues	37,470
Total Revenues:		<u>2,083,397</u>

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	1,413,002
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,413,002</u>
Excess (Deficiency) Revenues over Expenditures:		670,395

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	226,582
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>226,582</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	660,892
591-593, 599	Debt Service	568,362
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		<u>1,229,254</u>

Increase (Decrease) in Cash and Investments:	<u>(332,277)</u>
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Ending Cash and Investments

5081000	Reserved	1,423,420
5088000	Unreserved	788,256
Total Ending Cash and Investments		<u>2,211,676</u>

The accompanying notes are an integral part of this statement.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2021

Note 1 – Summary of Significant Accounting Policies

The Terrace Heights Sewer District is in Yakima County, WA and provides sanitary sewer services to local residents of Terrace Heights as well as receiving Moxee City's sewage through our sewer system infrastructure. The district has three elected Commissioners who serve six-year terms and administer the district. The district is supported primarily through user fees, which pay for the cost of operations and payment of debt service, associated with construction. Terrace Heights Sewer District was incorporated in March 1954 and operates under the laws of the state of Washington applicable to a sewer district. Terrace Heights Sewer District is a special purpose local government and operates under Title 57 RCW and other laws of the State of Washington applicable to sewer districts.

Terrace Heights Sewer District reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from Generally Accepted Accounting Principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2021

PROPRIETARY FUND TYPES:

Enterprise Funds-

These funds account for operations that provide goods or services to the public and are supported primarily through user charges.

Pension Trust Funds-

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law Terrace Heights Sewer District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

Terrace Heights Sewer District's deposits with Banner Bank are insured by FDIC. The district's investments are held by Yakima County, who act as our Treasurer. Total investments and deposits at the end of December 31, 2021 were \$1,994,075.44. It is the district's policy to invest all temporary cash surpluses.

For more details see Note 3, Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000.00 and an estimated useful life of more than one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation to be accumulated over the year, but a maximum of 40 hours vacation time may be carried over from year to year. Any accrued but unused time in excess of 40 hours is automatically forfeited at the end of the calendar year. Accumulated vacation hours may be paid out upon retirement but not termination. Sick leave will accrue for full time employees at 8hrs per month and may be accumulated up to 192 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debts are amortized by the interest method over the period the related debt is outstanding. See Note 4 for more information.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2021

G. Reserved portion of Ending Cash and Investments

In accordance with bond resolutions (and related agreements), separate restricted funds are required to be established by Terrace Heights Sewer District Board of Commissioners. The assets held in these funds are restricted or have been reserved for debt service. Restricted funds totaled \$1,979,420.00 as of December 31, 2021.

Note 2. Budget Compliance

There have been no material violations of finance related or contractual provisions. The district is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the district. The district has not reported budgetary comparison schedules herein.

Note 3. Deposits and Investments

As required by state law, all investments of the district's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

The District's cash and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the Enterprise Fund.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restriction on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504- 0200, online at www.tre.wa.gov.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2021

Type of Deposit or Investment	Terrace Heights Sewer District's own Deposits/Investments	Investments held by Yakima County Treasurer for the district	Total
Construction-605011		\$93,163.54	\$93,163.54
Maintenance-605012		\$47,460.04	\$47,460.04
Debt Service Reserve-605013		\$7,988.81	\$7,988.81
CIP-605017		\$310,450.00	\$310,450.00
Rate Stabilization-605019		\$98,883.23	\$98,883.23
Bond Redemption 605014		\$292,187.12	\$292,187.12
Local Government Investment Pool		\$1,979,420.00	\$1,979,420.00
Banner Bank	\$14,655.44		\$14,655.44
Total Ending Balance			\$2,844,208.18

Note 4. Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2021.

The debt service requirements for revenue bonds and public work loans are as follows:

	Principal Payment	Interest	Total
2022	\$494,860.04	\$95,776.77	\$590,636.82
2023	\$496,622.53	\$91,211.92	\$587,834.45
2024	\$498,297.55	\$86,072.04	\$584,369.59
2025	\$509,397.53	\$80,632.17	\$590,029.70
2026-2031	\$3,213,724.93	\$301,803.18	\$3,515,528.11

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
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2032-2037	\$1,201,720.91	\$18,550.78	\$1,220,271.69
2038-2039	\$23,850.73	\$604.62	\$24,455.35

Note 5. Pension Plans

Substantially all of Terrace Heights Sewer district's full-time employees participate in 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 Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan.

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

On June 30, 2021 (*the measurement date of the plans*), the district's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	15,011.00	0.002015%	\$24,610.00
PERS 2/3	24,552.00	.002592%	(\$258,205.00)
Total Net Pension Liability (Schedule 9)			\$24,610.00

Note 6. Risk Management

Terrace Heights Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an

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Notes to the Financial Statements
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Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2021

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

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2022, written notice must be in possession of the Pool by April 30, 2022). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the district was a signatory to the Interlocal Governmental Agreement.

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

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

Note 7. Other Disclosures

Roza Irrigation-

The Terrace Heights Sewer District is a defendant in a state lawsuit filed by several plaintiffs arising from an alleged sewer leak into the Roza Main Canal that occurred in August 2018. The allegation is that Terrace Heights Sewer District failed to maintain the sewer pipe, resulting in the spill and alleged contamination of crops watered from the Canal. Terrace

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Notes to the Financial Statements
for the year ended December 31, 2021

Heights Sewer District denies these claims. Alleged damages are in excess of \$5M. The case is still in the discovery stage, and it is not possible at this time to provide an estimate of potential loss in the event of a negative outcome at trial.

Moxee Wastewater Conveyance Agreement

The Terrace Heights Sewer District entered into an agreement with the City of Moxee in 2005 for wastewater conveyance. As part of that agreement THSD will operate, maintain, modify, and expand the Lift Station and force mains in the exercise of its sole discretion based on the sound engineering standards and projected system needs and requirements. The City shall pay a proportional share of the costs associated with such operation, maintenance, modification, improvement or expansion of the Lift Station and force mains. The City's proportional share shall be determined based upon the city's flow to the Lift Station in relation to overall Lift Station flow.

Note 8. Covid 19

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

As a public utility providing sewer services, we have noted little change to our normal sewer business operation. There has not been a noted in sewer revenue due to covid 19.

The district has been able to continue serving our customers without disruption.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2020

Note 1 – Summary of Significant Accounting Policies

The Terrace Heights Sewer District is in Yakima County, WA and provides sanitary sewer services to local residents of Terrace Heights as well as receiving Moxee City's sewage through our sewer system infrastructure. The district has three elected Commissioners who serve six-year terms and administer the district. The district is supported primarily through user fees, which pay for the cost of operations and payment of debt service, associated with construction. Terrace Heights Sewer District was incorporated in March 1954 and operates under the laws of the state of Washington applicable to a sewer district. Terrace Heights Sewer District is a special purpose local government and operates under Title 57 RCW and other laws of the State of Washington applicable to sewer districts.

Terrace Heights Sewer District reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from Generally Accepted Accounting Principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
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PROPRIETARY FUND TYPES:

Enterprise Funds-

These funds account for operations that provide goods or services to the public and are supported primarily through user charges.

Pension Trust Funds-

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law Terrace Heights Sewer District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

Terrace Heights Sewer District's deposits with Banner Bank are insured by FDIC. The district's investments are held by Yakima County, who act as our Treasurer. Total investments and deposits at the end of December 31, 2020 were \$1,813,034.59. It is the district's policy to invest all temporary cash surpluses.

For more details see Note 3, Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life of more than one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation to be accumulated over the year, but a maximum of 40 hours vacation time may be carried over from year to year. Any accrued but unused time in excess of 40 hours is automatically forfeited at the end of the calendar year. Accumulated vacation hours may be paid out upon retirement but not termination. Sick leave will accrue for full time employees at 8hrs per month and may be accumulated up to 192 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debts are amortized by the interest method over the period the related debt is outstanding. See Note 4 for more information.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2020

G. Reserved portion of Ending Cash and Investments

In accordance with bond resolutions (and related agreements), separate restricted funds are required to be established by Terrace Heights Sewer District Board of Commissioners. The assets held in these funds are restricted or have been reserved for debt service. Restricted funds totaled \$1,779,420.00 as of December 31, 2020.

Note 2. Budget Compliance

There have been no material violations of finance related or contractual provisions. The district is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the district. The district has not reported budgetary comparison schedules herein.

Note 3. Deposits and Investments

As required by state law, all investments of the district's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

The District's cash and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the Enterprise Fund.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restriction on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504- 0200, online at www.tre.wa.gov.

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Notes to the Financial Statements
for the year ended December 31, 2020

Type of Deposit or Investment	Terrace Heights Sewer District's own Deposits/Investments	Investments held by Yakima County Treasurer for the district	Total
Construction-605011		\$248,663.20	\$248,663.20
Maintenance-605012		\$53,620.41	\$53,620.41
Debt Service Reserve-605013		\$2,680.50	\$2,680.50
CIP-605017		\$355,674.92	\$355,674.92
Rate Stabilization-605019		\$48,062.44	\$48,062.44
Bond Redemption 605014		\$302,787.12	\$302,787.12
Local Government Investment Pool		\$1,779,420.00	\$1,779,420.00
Banner Bank	\$33,314.59		\$33,314.59
Total Ending Balance	\$2,824,223.18		

Note 4. Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2020.

The debt service requirements for revenue bonds and public work loans are as follows:

	Principal Payment	Interest	Total
2021	\$487,922.54	\$127,254.14	\$615,176.68
2022	\$494,860.05	\$95,776.77	\$590,636.82
2023	\$496,622.53	\$91,211.92	\$587,834.45
2024	\$498,297.55	\$86,072.04	\$584,369.59
2025-2030	\$3,162,558.35	\$357,350.75	\$3,519,909.10

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Notes to the Financial Statements
for the year ended December 31, 2020

2031-2036	\$1,750,359.66	\$43,028.76	\$1,793,388.42
2037-3039	35,776.09	1,209.24	36,985.33

Note 5. Pension Plans

Substantially all of Terrace Heights Sewer district's full-time employees participate in 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 Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan.

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

On June 30, 2020 (*the measurement date of the plans*), the district's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	15,034.00	0.002074%	\$73,223.00
PERS 2/3	24,748.00	0.002686%	\$34,352.00
Total Net Pension Liability (Schedule 9)			\$107,576.00

Note 6. Risk Management

Terrace Heights Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an

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Notes to the Financial Statements
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Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000

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Notes to the Financial Statements
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Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

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

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

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

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

Note 7. Other Disclosures

Roza Irrigation-

The Terrace Heights Sewer District is a defendant in a state lawsuit filed by several plaintiffs arising from an alleged sewer leak into the Roza Main Canal that occurred in August 2018. The allegation is that Terrace Heights Sewer District failed to maintain the sewer pipe, resulting in the spill and alleged contamination of crops watered from the Canal. Terrace

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2020

Heights Sewer District denies these claims. Alleged damages are in excess of \$5M. The case is still in the discovery stage, and it is not possible at this time to provide an estimate of potential loss in the event of a negative outcome at trial.

Moxee Wastewater Conveyance Agreement

The Terrace Heights Sewer District entered into an agreement with the City of Moxee in 2005 for wastewater conveyance. As part of that agreement THSD will operate, maintain, modify, and expand the Lift Station and force mains in the exercise of its sole discretion based on the sound engineering standards and projected system needs and requirements. The City shall pay a proportional share of the costs associated with such operation, maintenance, modification, improvement or expansion of the Lift Station and force mains. The City's proportional share shall be determined based upon the city's flow to the Lift Station in relation to overall Lift Station flow.

Note 8. 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.

As a public utility providing sewer services, we have noted little change to our normal sewer business operation. There has not been a noted in sewer revenue due to covid 19.

The district has been able to continue serving our customers without disruption.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

Note 1 – Summary of Significant Accounting Policies

The Terrace Heights Sewer District is in Yakima County, WA and provides sanitary sewer services to local residents of Terrace Heights as well as receiving Moxee City's sewage through our sewer system infrastructure. The district has three elected Commissioners who serve six-year terms and administer the district. The district is supported primarily through user fees, which pay for the cost of operations and payment of debt service, associated with construction. Terrace Heights Sewer District was incorporated in March 1954 and operates under the laws of the state of Washington applicable to a sewer district. Terrace Heights Sewer District is a special purpose local government and operates under Title 57 RCW and other laws of the State of Washington applicable to sewer districts.

Terrace Heights Sewer District reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from Generally Accepted Accounting Principles (GAAP) in the following manner:

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- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

PROPRIETARY FUND TYPES:

Enterprise Funds-

These funds account for operations that provide goods or services to the public and are supported primarily through user charges.

Pension Trust Funds-

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received, and expenditures are recognized when paid.

In accordance with state law Terrace Heights Sewer District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Cash and Investments

Terrace Heights Sewer District's deposits with Banner Bank are insured by FDIC. The district's investments are held by Yakima County, who act as our Treasurer. Total investments and deposits at the end of December 31, 2019 were \$1,438,247.00. It is the district's policy to invest all temporary cash surpluses.

For more details see Note 3, Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5000.00 and an estimated useful life of more than one year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation to be accumulated over the year, but a maximum of 40 hours vacation time may be carried over from year to year. Any accrued but unused time in excess of 40 hours is automatically forfeited at the end of the calendar year. Accumulated vacation hours may be paid out upon retirement but not termination. Sick leave will accrue for full time employees at 8hrs per month and may be accumulated up to 192 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debts are amortized by the interest method over the period the related debt is outstanding. See Note 4 for more information.

G. Reserved portion of Ending Cash and Investments

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

In accordance with bond resolutions (and related agreements), separate restricted funds are required to be established by Terrace Heights Sewer District Board of Commissioners. The assets held in these funds are restricted or have been reserved for debt service. Restricted funds totaled \$1,423,420.00 as of December 31, 2019.

Note 2. Budget Compliance

There have been no material violations of finance related or contractual provisions. The district is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the district. The district has not reported budgetary comparison schedules herein as required supplementary information.

Note 3. Deposits and Investments

As required by state law, all investments of the district's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

The District's cash and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission. At times, these balances may exceed insured limits. The District has not experienced any losses related to such accounts.

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on the Statement of Fund Resources and Uses Arising from Cash Transactions. The interest earned on these investments is posted to the Enterprise Fund.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restriction on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504- 0200, online at www.tre.wa.gov.

Type of Deposit or Investment	Terrace Heights Sewer District's own Deposits/Investments	Investments held by Yakima County Treasurer for the district	Total
Construction-605011		\$19,676.31	\$19,676.31
Maintenance-605012		\$41,919.36	\$41,919.36

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

Debt Service Reserve- 605013		\$50,715.08	\$50,715.08
CIP- 605017		\$286,947.18	\$286,974.18
Rate Stabilization- 605019		\$13,380.21	\$13,380.21
Bond Redemption 605014		\$342,424.62	\$342,424.62
Equipment Replacement 605015		\$162.18	\$162.18
Building Construction		\$287.39	\$287.39
Local Government Investment Pool		\$1,423,420.00	\$1,423,420.00
Banner Bank	\$32,716.43		\$32,716.43
Total Ending Balance			\$2,211,675.76

Note 4. Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for year ended December 31, 2019.

The debt service requirements for revenue bonds and public work loans are as follows:

	Principal Payment	Interest	Total
2020	\$468,472.18	\$100,525.74	\$568,997.92
2021	\$475,997.18	\$96,424.91	\$572,422.09
2022	\$482,934.69	\$92,149.08	\$575,083.77
2023	\$484,697.18	\$87,785.76	\$572,482.94
2024-2029	\$3,038,772.14	\$391,446.03	\$3,430,218.17

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

2030-2033	\$2,217,413.75	\$68,807.50	\$2,286,221.25
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Note 5. Pension Plans

Substantially all of Terrace Heights Sewer district's full-time employees participate in 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 Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan.

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

On June 30, 2019 (*the measurement date of the plans*), the district's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	15,718.00	0.002192%	\$84,290.00
PERS 2/3	23,125.00	0.002831%	\$27,499.00
Total Net Pension Liability (Schedule 9)			\$111,789.00

Note 6. Risk Management

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

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

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

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except were noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for

Note 6. Risk Management continued

earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the district was a signatory to the Interlocal Governmental Agreement.

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

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

Note 7. Other Disclosures

Roza Irrigation-

The Terrace Heights Sewer District is a defendant in a state lawsuit filed by several plaintiffs arising from an alleged sewer leak into the Roza Main Canal that occurred in August 2018. The allegation is that Terrace Heights Sewer District failed to

Terrace Height Sewer District-MCAG NO.2189
Notes to the Financial Statements
for the year ended December 31, 2019

maintain the sewer pipe, resulting in the spill and alleged contamination of crops watered from the Canal. Terrace Heights Sewer District denies these claims. Alleged damages are in excess of \$5M. The case is still in the discovery stage, and it is not possible at this time to provide an estimate of potential loss in the event of a negative outcome at trial.

Moxee Wastewater Conveyance Agreement

The Terrace Heights Sewer District entered into an agreement with the City of Moxee in 2005 for wastewater conveyance. As part of that agreement THSD will operate, maintain, modify, and expand the Lift Station and force mains in the exercise of its sole discretion based on the sound engineering standards and projected system needs and requirements. The City shall pay a proportional share of the costs associated with such operation, maintenance, modification, improvement or expansion of the Lift Station and force mains. The City's proportional share shall be determined based upon the city's flow to the Lift Station in relation to overall Lift Station flow.

Note 8. Prior Period Adjustments

There was one prior period adjustment made in 2019, an increase of funds in the amount of \$120,547.00 to reflect Terrace Heights Sewer District's actual revenue and expenditures.

**Terrace Heights Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	General Obligation Debt/Liabilities	6/1/2026	1,157,417	-	192,903	964,514
263.81	General Obligation Debt/Liabilities	6/1/2025	73,816	-	14,763	59,053
263.81	General Obligation Debt/Liabilities	6/1/2039	226,582	-	11,925	214,657
263.81	General Obligation Debt/Liabilities	12/31/2041	62,956	72,576	-	135,532
Total General Obligation Debt/Liabilities:			1,520,771	72,576	219,591	1,373,756
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability	12/31/2021	107,576	-	82,966	24,610
252.11	G.O BONDS	1/1/2033	4,660,000	-	175,000	4,485,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			4,767,576	-	257,966	4,509,610
Total Liabilities:			6,288,347	72,576	477,557	5,883,366

Terrace Heights Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2020

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	G.O Bonds	1/1/2033	4,825,000	-	165,000	4,660,000
263.81	General Obligation Debt/Liabilities	6/1/2026	1,350,320	-	192,903	1,157,417
263.81	General Obligation Debt/Liabilities	6/1/2025	88,579	-	14,763	73,816
263.81	General Obligation Debt/Liabilities	12/31/2041	-	62,956	-	62,956
263.81	General Obligation Debt/Liabilities	6/1/2019	32,986	-	32,986	-
263.81	General Obligation Debt/Liabilities	6/1/2039	226,582	-	-	226,582
Total General Obligation Debt/Liabilities:			6,523,467	62,956	405,652	6,180,771
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability	12/31/2020	111,789	-	4,213	107,576
Total Revenue and Other (non G.O.) Debt/Liabilities:			111,789	-	4,213	107,576
Total Liabilities:			6,635,256	62,956	409,865	6,288,347

**Terrace Heights Sewer District
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	General Obligation Debt/Liabilities	6/1/2019	32,986	-	32,986	-
263.81	General Oligation Debt/Lieabilites	6/1/2026	1,543,222	-	192,902	1,350,320
263.81	General Obligation Debt/Liabilities	6/1/2025	103,342	-	14,763	88,579
251.11	G.O BONDS	1/1/2033	4,950,000	-	125,000	4,825,000
263.81	General Obligation Debt/Liabilities	6/1/2039	-	226,582	-	226,582
Total General Obligation Debt/Liabilities:			6,629,550	226,582	365,651	6,490,481
Revenue and Other (non G.O.) Debt/Liabilities						
264.30	Net Pension Liability	12/31/2019	136,905	-	25,116	111,789
Total Revenue and Other (non G.O.) Debt/Liabilities:			136,905	-	25,116	111,789
Total Liabilities:			6,766,455	226,582	390,767	6,602,270

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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