Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Highline Water District

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

Published April 29, 2024

Report No. 1034602

Office of the Washington State Auditor
Pat McCarthy

April 29, 2024

Board of Commissioners
Highline Water District
Kent, Washington

Report on Financial Statements

Please find attached our report on the Highline Water 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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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*

Highline Water District
January 1, 2022 through December 31, 2022

Board of Commissioners
Highline Water District
Kent, 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 Highline Water District, 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 April 23, 2024.

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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

April 23, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Highline Water District
January 1, 2022 through December 31, 2022

Board of Commissioners
Highline Water District
Kent, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Highline Water District, 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 the Highline Water District, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2022, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87 *Leases*. Our opinion is not modified with respect to this matter.

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;

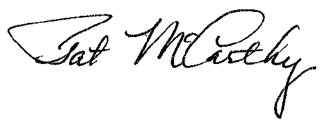
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2024 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.



Pat McCarthy, State Auditor

Olympia, WA

April 23, 2024

FINANCIAL SECTION

Highline Water District
January 1, 2022 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLINE WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

INTRODUCTION

Highline Water District was formed in 1946 to provide water service to customers residing within the District boundaries. Currently, the District consists of 18-square miles, serving portions of seven cities and unincorporated areas within southwest King County. The District provides water to a population of approximately 71,000 and businesses that employ 28,000 people through 18,800 metered connections.

The mission of the Board of Commissioners and employees of Highline Water District is to provide high quality water and excellent customer service while effectively managing District infrastructure for a reliable water system today and for future generations.

MANAGEMENT DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents the District's review of its financial position and performance as of December 31, 2022. These comments should be evaluated in conjunction with the District's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include a statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements. The financial statements are prepared using the accrual basis of accounting and conform to the generally accepted accounting principles applicable to proprietary fund of the government.

The statement of net position presents the total assets, & deferred outflows of resources along with the total liabilities and deferred inflows of resources. The difference between the two totals reported as net position. The statements provide information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). The information provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

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

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

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

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31, 2022

	2022	2021
Capital Assets	$ 110,435,744	$ 110,381,711
Other Assets	30,240,281	26,138,253
Total Assets	140,676,025	136,519,964
Deferred Outflows of Resources	972,427	340,145
Long-Term Liabilities	4,053,062	1,855,919
Other Liabilities	2,790,890	3,037,198
Total Liabilities	6,843,952	4,893,117
Deferred Inflows of Resources	2,047,816	2,653,254
Net Investment in Capital Assets	107,990,663	107,457,949
Restricted for Impaired Investments	5,799	7,652
Restricted for Pensions	970,934	-
Unrestricted Amounts	23,789,289	21,848,137
Total Net Position	$ 132,756,684	$ 129,313,738

Analysis of the Condensed Comparative Statement of Net Position

Capital Assets

Capital assets consist of land, construction in progress, and plant in service. In 2022, the net capital assets increased by $54,033 after depreciation. Construction in progress decreased of $342,692. The District disposed of $600,202 for abandoned/replaced mains, valves, blowoffs, services, and hydrants, leading to a reduction in assets. Although plant-in-service increased by $4,182,076, accumulated depreciation increased by $3,785,351, resulting in a minimal increase in net capital assets. The principal projects in the 2022 capital include: Project 18-2 International Blvd at SR 509 Road Improvement, Project 19-1 North Hill AC Water Main Replacement, Project 20-1 Military Road Watermain Relocation, and Project SW 22-3 272nd Emergency Water Main Replacement.

In comparison, 2021 net capital assets for the District, increased by $8,327,677 after depreciation. The principal projects in 2021 capital spending include: Project 16-2 George Landon Pump Station #8, Project 19-1 North Hill AC Watermain Replacement, and Project 18-2. Plant-in-service increased by $12,008,467 and accumulated depreciation increased approximately $3.8 million.

Over the next four years, anticipated capital spending will be approximately $31 million. The areas of major emphasis in the capital budget include reservoir retrofitting, security upgrades, and improvements, main replacement projects, and equipment purchases.

Analysis of the Condensed Comparative Statement of Net Position (Continued)

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2022 WAS AS FOLLOWS:

	Balance 12/31/2022	Balance 12/31/2021	Changes
Land	$ 932,734	$ 932,734	$ -
Construction in Process	5,160,348	5,503,040	(342,692)
Plant In Service	181,533,632	177,351,556	4,182,076
Accumulated Depreciation	(77,190,970)	(73,405,619)	(3,785,351)
Total Capital Assets, Net	$ 110,435,744	$ 110,381,711	$ 54,033

CAPITAL ASSET ACTIVITY FOR THE YEAR ENDED DECEMBER 31, 2021 WAS AS FOLLOWS:

	Balance 12/31/2021	Balance 12/31/2020	Changes
Land	$ 932,734	$ 693,971	$ 238,763
Construction in Process	5,503,040	5,566,985	(63,945)
Plant In Service	177,351,556	165,343,089	12,008,467
Accumulated Depreciation	(73,405,619)	(69,550,010)	(3,855,609)
Total Capital Assets, Net	$ 110,381,711	$ 102,054,035	$ 8,327,676

Assets

Current Assets include cash and cash equivalents held in various funds. Total Cash and cash equivalents increased by $2,337,473 in 2022 as compared to a decrease of $4,429,393 in 2021. Cash balances in the funds vary from year to year based on income from operations, capital contributions, expenses paid for operations and construction costs, transfers between funds, borrowings, and debt service payments. The notable increase in 2022 was due to a 3.5% water rate increase adopted by the Board of Commissioners effective on January 1,2022. Additionally, the economic recovery from the COVID-19 pandemic resulted in increased commercial revenue by $559,941 in 2022.

Current Assets also include accounts receivable, accrued utility revenue, current portion of contract receivable, inventories, and prepaid expenses. Customer accounts receivable decreased by $26,243 and increased by $249,898 2022 and 2021, respectively. The decrease was due to COVID collection restrictions being lifted. Accrued utility revenue increased by $135,035 caused primarily by commercial water sales returning to pre-pandemic trends in 2022. Receivables from leases, developers and others increased by $658,669 in 2022, due to the implementation of GASB 87 – Leases in January 2022. The present value of lease receivable is $1,158,401 for nine cell tower leases.

Noncurrent assets

Net capital additions increased as a result of capital spending of $4,182,076, property reimbursement by DES and Enduris totaling $68,654 and developer-donated systems amounting to $776,510. These additions were offset by a depreciation expense of $4,495,950.

In addition, GASB 68 implemented recognizing any Net Pension Asset below capital assets instead of combining all entries in Net Pension Liabilities. The net pension asset is $954,826 for 2022. The net pension asset decreased $1,609,591 as compared to 2021.

Analysis of the Condensed Comparative Statement of Net Position (Continued)

Noncurrent assets (Continued)
Net pension asset is the amount in excess of the amount owed to a defined benefit pension plan based on the actuarial present value of projected benefit payments for plan members and their beneficiaries less the plan's net position.

Deferred Outflows of Resources
The deferred outflows of resources related to pension is a depletion of net assets that will be recognized in a future reporting period. The deferred outflow increased by $631,689 in 2022, caused primarily due to fluctuations in the deferred pension outflows of the pension plan as a whole. This contrasts with the previous year, where there was a decrease of $12,131. The District recognized deferred outflows related to other postemployment benefits (OPEB) in accordance with GASB 75 in 2018. The deferred outflows related to other post-employment benefits (OPEB) remained stable in 2021 and 2022.

Liabilities
Current Liabilities consist of accounts payable, current portion and interest for long-term debt, developer deposits payable and contractor retainage on public works projects. Developer deposits payable decreased by $66,551 due to reduced developer activity. Retainage increased $100,401 since 2021. The total current liabilities decreased by $246,392 and $858,644 in 2022 and 2021, respectively. Current liabilities vary due to the volume of purchases made by year end.

Noncurrent liabilities include compensated absences, net pension liability, OPEB liability, and the long-term portions of the Public Works Trust Fund/Drinking Water State Revolving Fund loans. Noncurrent liabilities decreased by $367,278 in 2022, primarily due to payments of loan principal, an increase of $306,720 in net pension liability, and a decrease of $213,686 in long-term OPEB Liability. The net pension liability increased because of the Districts and included proportion liability in the overall pension plan. The total OPEB liability decreased because of the changes in experience data and the assumptions used to calculate the liability by the state actuaries. The reduction is primarily due to two factors: the discount rate assumption and members opting to continue work instead of retiring.

For additional information, please refer to Note 5, which provides detailed information of changes to long-term debt.

Deferred Inflows of Resources
Deferred inflows related to pensions decreased by $1,678,361 in 2022, due to changes in assumptions used to calculate the liability and the difference between projected and actual investment earnings. Deferred inflows related to leases increased by $1,072,922 in 2022, due to the implementation of GASB 87. Under the new rule, lessors must continue to recognize the capital assets on their balance sheet and lessees must recognize lease liability and a right to use assets for all qualified leases.

Net Position
Net position consists of total assets and deferred outflows minus total liabilities and deferred inflows.
Net position increased by $3,442,946 in 2022 and $5,052,223 in 2021. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

HIGHLINE WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
REVENUES		
Water Distribution Revenue	$ 17,917,762	$ 17,721,849
Service Revenue	1,140,120	$ 954,436
Nonoperating Revenue	132,768	876,522
Total Operating Revenues	19,190,650	19,552,807
EXPENSES		
Operating Costs	9,580,090	9,374,891
General and Administrative Expenses	3,425,028	2,980,965
Depreciation and Amortization	4,495,950	4,343,583
Interest on Long-Term Debt	10,242	12,623
Total Operating Expenses	17,511,311	16,712,062
CHANGES IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	1,679,339	2,840,745
Capital Contributions	1,763,607	2,211,478
CHANGE IN NET POSITION	3,442,946	5,052,223
Net Position, January 1	129,313,738	124,261,515
Change in accounting principle	-	-
NET POSITION - DECEMBER 31	$ 132,756,684	$ 129,313,738

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

Revenue

In 2022, total water Distribution revenues increased by $195,913 comprised by a $559,9441 increase in commercial water sales. A decrease in residential sales by $103,744 as government restrictions were lifted, resulting in an overall increase in water operating revenue.

Service revenue increased by $185,684 in 2022 and increased $35,669 in 2021 due to the District reinstating late fee and penalties to customer accounts Post COVID-19

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

Nonoperating revenue which includes investment income/loss, rental income, developer extension fees, inspection fees, and other sources. This revenue decreased by $743,754 in 2022. due to the loss on the abandoned/replaced assets and equipment. The decrease in Investment income of $211,578 in 2022 and $476,865 in 2021 is attributed to the fluctuations in interest income on funds invested in the King County Investment Pool.

Expenses
Operating expenses experienced an $801,629 increase in 2022, and a decrease of $774,338 in 2021. The primary driver of this fluctuation was the administrative and general expense category. Pension and OPEB expense fluctuated due to differences between projected and actual investment earnings on pension plan investments and the changes in experienced data and assumptions for the OPEB expense. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligations for pension benefits to comprehensively and comparably measure the annual cost of pension benefits.

Nonoperating expenses consists of interest expense on long-term debt. Interest expense decreased by $2,381 in 2022 and $3,793 in 2021 due to decreasing principal balances.

Capital Contributions in 2022 decreased $447,871 compared to 2021. Systems donated to the District by developers increased $703,997, general facilities fees increased $120,000, and donated property revenue decreased by $1,276,606. Construction activity returned slowly to normal business practice post covid. Capital Contributions decreased $2,138,984 in 2021 as compared to 2020. Systems donated to the District by developers decreased $415,900 in 2021 and general facilities fees decreased $456,000 in 2021.

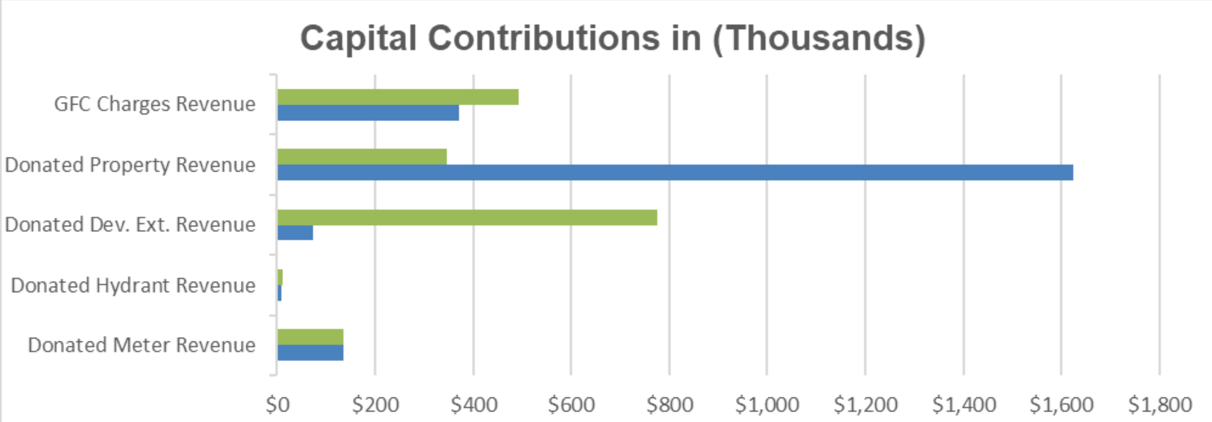
Change in Net Position
Net Position increased by $3,442,946 in 2022 and by $5,052,223 in 2021 reflecting total revenues exceeding total expenses in both years.

ANALYSIS OF OVERALL FINANCIAL CONDITION
The District's overall financial position continues to be strong in both 2022 and 2021, with an increase in net position, sufficient liquidity to support ongoing operations, and positive operating cash flow.

Capital Contributions

The District collects capital contributions from new customers in the form of connection charges, ULID assessments and donated systems. The following chart indicates capital contributions over the past two years for each category of capital contributions.

ANALYSIS OF OVERALL FINANCIAL CONDITION (CONTINUED)



	Donated Meter Revenue	Donated Hydrant Revenue	Donated Dev. Ext. Revenue	Donated Property Revenue	GFC Charges Revenue
2022	$136,400	$11,848	$776,510	$346,849	$492,000
2021	$135,618	$7,891	$72,513	$1,623,456	$372,000

The capital contributions are indicative of the growth of the District. Refer to the chart below for the variances between 2022 and 2021 for the Capital Contribution categories.

Significant capital asset additions during the years included the following:

2022		2021	
Water Main Replacements	$1,392,432	Water Main Replacements	$6,499,128
Wells and Reservoirs	31,453	Wells and Reservoirs	59,665
Pump Stations	113,562	Pump Stations	5,367,834
Meters	30,028	Meters	73,075
Other Projects	2,114,650	Other Projects	450,132
Developer Extensions		Developer Extensions	
Donated System	776,509	Donated System	72,513

Long-Term Debt

Long-term debt decreased in 2022 due to principal payments without new borrowings.

See Notes 4, 5, and 6 in the Financial Statements for detailed activity in capital assets and long-term liabilities.

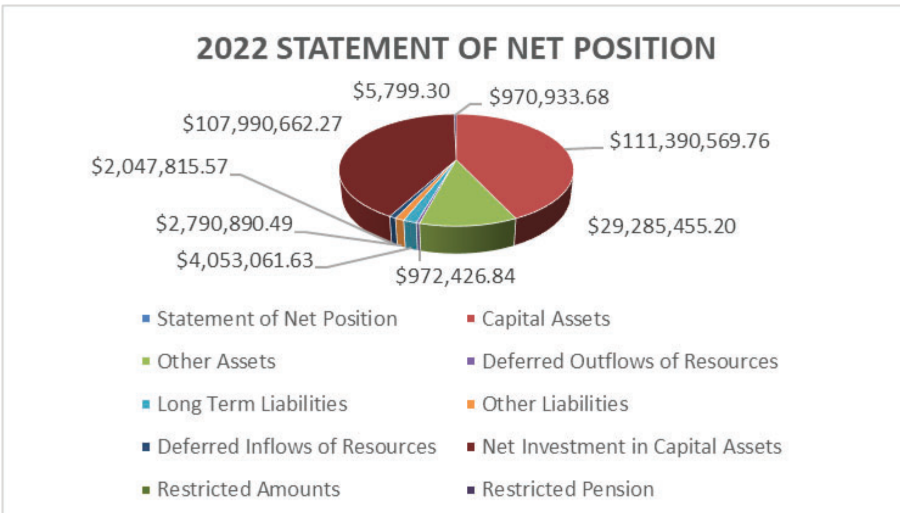
As of December 31, 2022, the District has $11,001,527 of cash and equivalents in construction accounts; of which $731,460 was committed under existing construction contracts.

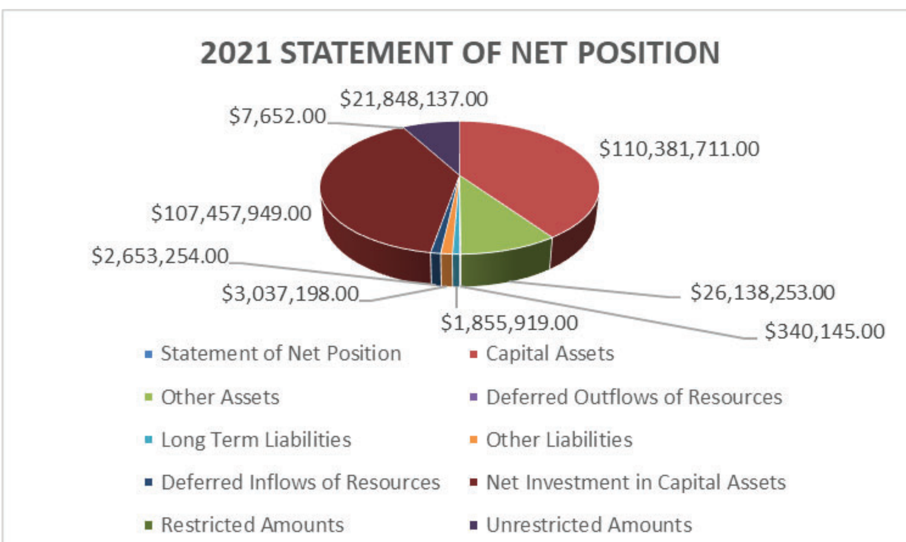
ANALYSIS OF OVERALL FINANCIAL CONDITION (CONTINUED)

The District is financed primarily by equity. Substantial liquid assets are available to fund liabilities and construction. To ensure that the District's financial condition remains strong, the needs for future rate increases will be evaluated annually.

The following charts indicate the components of financial position.

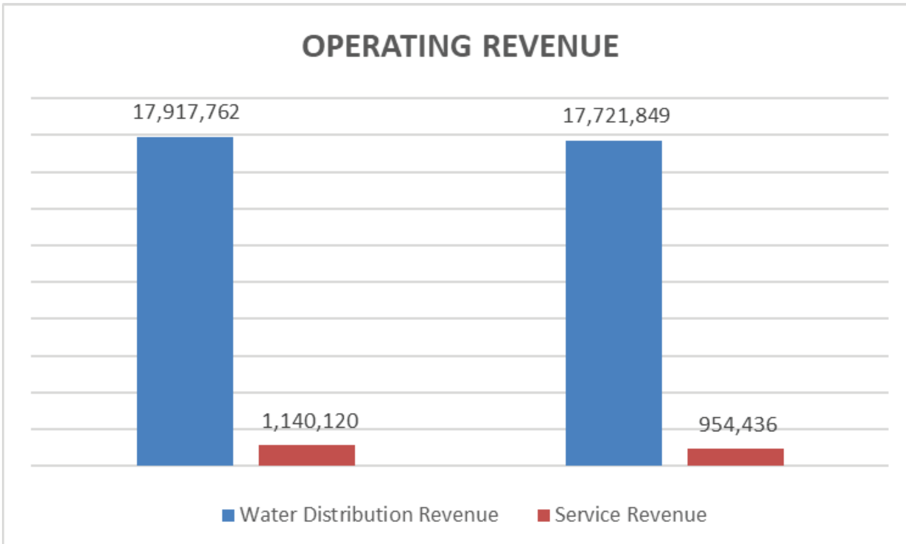
COMPARISON STATEMENT OF NET POSITION 2022 VS 2021





RESULTS OF OPERATIONS

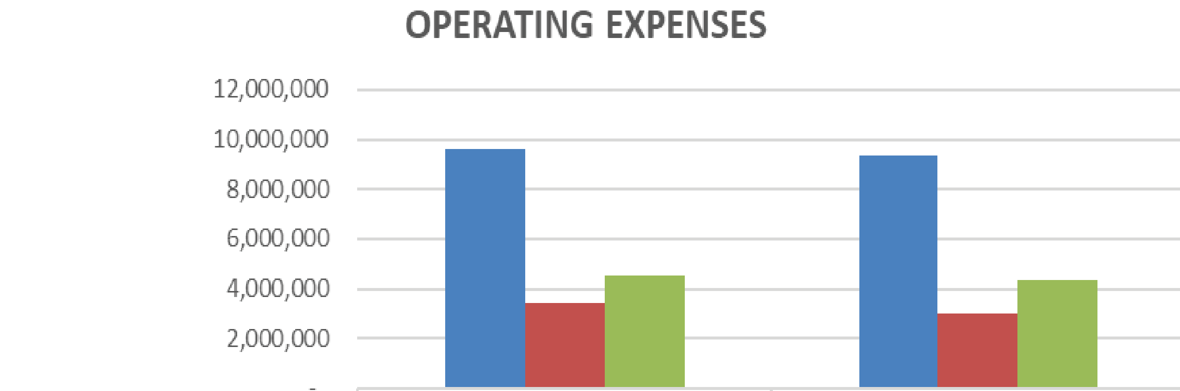
Operating revenues are received from two sources: metered water sales and service charges (including streetlights and franchise fees). The following chart indicates operating revenue over the last two years.



In 2022, operating revenues rose by $195,913, primarily driven by an increase in commercial water sales. As COVID-19 restrictions gradually lifted, commercial business gradually recovered, resulting in a 7% increase in commercial water sales compared to 2021. However, weather conditions can still affect usage and corresponding revenues. Meanwhile, residential water sales decreased by approximately 2% likely due to employees returning to work or alternate work schedules rather than working entirely from home.

RESULTS OF OPERATIONS (CONTINUED)

The following chart indicates operating expenses over the last two years.



	2022	2021
Operating costs	9,580,090	9,374,891
General and administrative	3,425,028	2,980,965
Depreciation and amortization	4,495,950	4,343,583

The District has operated at a profit in each of the past two years. The District's philosophy is to provide for all depreciation through rates, based on the principle that current users should pay all costs associated with the water system as it is being used. Operating costs increased in 2022 compared to 2021 by $801,629. The District increased purchases from Seattle Public Utility due to increased water sales and the voluntary suspension of Tyee Well operations due to PFAS detection. General and administrative expenses increased 15% due to several factors: Pension and OPEB expense fluctuated due to differences between projected and actual investment earnings on pension plan investments and the changes in experienced data and assumptions for the OPEB expense. These expenses increased approximately $479,486 from 2022 as compared to 2021. In addition, depreciation and amortization expense increased 4%. The District's operating revenues are augmented by earnings on investments and other nonoperating revenues in excess of other expenses, principally interest on long-term debt.

ADDITIONAL COMMENTS

Water Supply:
The District purchases approximately 72% of water provided to customers from Seattle Public Utilities (SPU). The District currently has adequate water supply to grant all requests for water service within its boundaries and is investigating additional water supply options to allow for near and long-term needs. This effort includes possible water supply agreements with adjacent water districts and/or cities.

The District maintains a 60-year Partial Supply Contract with the SPU executed in 2001. The contract includes a provision to review and change certain terms and conditions of the agreement every 20 years. The District, along with other regional purveyors, is participating in the process with SPU and anticipate completion by the end of 2023.

Tyee Well:
In January 2022, the Washington State Department of Health (DOH) implemented new standards for public drinking water systems to begin testing for Per- and Polyfluoroalkyl Substances (PFAS). In June 2022, the District sampled all its groundwater sources for PFAS and confirmed that one District source, the Tyee Well, exceeded the DOH State Action Level (SAL) for PFNA, a type of PFAS. No other District source was found to have PFAS substances exceeding the SAL. Exceeding the SAL requires a purveyor to provide public notification to affected customers, increasing monitoring and testing, identify potential sources and develop strategies to reduce contaminant.

The District voluntarily suspended Tyee Well operations until a more extensive investigation and the development of sufficient treatment options moving forward. The Tyee Well contributes about 4.5% of the District's overall water production annually and serves a limited area within the District's service boundary. Tyee Well production will be mitigated by increased purchases from SPU.

Resolution of Tukwila Intertie:
In 2017, a malfunction occurred in a supply intertie causing the unintentional delivery of approximately 187,000 CCF of water from the District to the City of Tukwila. The District sought resolution by invoicing the City for the water provided in accordance with the Intertie Agreement between the agencies. The City disputed the charges and proposed resolving the matter by returning an equivalent volume of water back to the District over time. The District concurred with the proposed solution and entered into a Settlement Agreement with the City in 2022 [Resolution 22-8-17B].

Regional Construction Projects:
The Central Puget Sound Regional Transit Authority (Sound Transit) continued construction of the Federal Way Light Rail Extension Project (FWLE) through the District’s boundaries. Sound Transit is financially responsible for construction costs of the water main work and the District is responsible for any betterments. Construction is expected to continue through 2025.

Washington State Department of Transportation (WSDOT) began construction to relocate existing infrastructure to accommodate the SR509 Completion Project, identified as District Project 18-2. The District partnered with WSDOT through an Interlocal Agreement for construction of the relocations based on a pre-negotiated lump sum cost. Construction is expected to continue through 2024.

HIGHLINE WATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2022

ASSETS		
CURRENT ASSETS		
Unrestricted:		
Cash and Cash Equivalents	$	22,662,576
Accounts Receivable - Users		2,775,482
Interest Receivable		38,853
Inventory		1,093,648
Miscellaneous Accounts Receivable		2,229,152
Prepaid Expenses		474,568
Total Unrestricted		29,274,279
Restricted:		
Cash and Cash Equivalents		5,378
Investments		5,799
Total Current Assets		29,285,455
NONCURRENT ASSETS		
Restricted Assets:		
Net Pension Asset		954,826
Capital Assets Not Being Depreciated:		
Land		932,734
Construction in Progress		5,160,348
Capital Assets Being Depreciated:		
Plant in Service		181,533,632
Less: Accumulated Depreciation		(77,190,970)
Net Capital Assets		110,435,744
Total Noncurrent Assets		111,390,570
Total Assets		140,676,025
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		958,111
Deferred Outflows Related to Other Postemployment Benefits		14,316
Total Deferred Outflows of Resources		972,427
Total Assets and Deferred Outflows of Resources	$	141,648,452

See accompanying Notes to Financial Statements

HIGHLINE WATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2022

LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	$	906,805
Accrued Salaries and Benefits		144,276
Accrued Compensated Absences		431,772
Retainage Payable		294,234
Developer Deposits		573,762
Accrued Interest		4,818
Long-Term Debt		406,714
Total OPEB Liability (Current Portion)		23,132
Total		2,785,513
Payable from Restricted Assets:		
Accounts Payable		5,377
Total Current Liabilities		2,790,890
NONCURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Debt		2,038,368
Compensated Absences		-
Net Pension Liability		553,950
Total OPEB Liability (Less Current Portion)		1,460,744
Total		4,053,062
Payable from Restricted Assets:		
Excise Tax Payable		-
Total Noncurrent Liabilities		4,053,062
Total Liabilities		6,843,952
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		974,893
Deferred Inflows Related to Leases		1,072,922
Total Liabilities and Deferred Inflows of Resources		8,891,768
NET POSITION		
Net Investment in Capital Assets		107,990,662
Restricted for Impaired Investments		5,799
Restricted for Pensions		970,934
Unrestricted		23,789,289
Total Net Position		132,756,684
Total Liabilities, Deferred Inflows of Resources and Net Position	$	141,648,452

See accompanying Notes to Financial Statements

HIGHLINE WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSTION
FOR THE PERIOD ENDING DECEMBER 31, 2022

OPERATING REVENUE	
Water Distribution Revenue:	
Metered Water Sales - Residential	$8,676,730
Metered Water Sales - Commercial	9,078,382
Metered Hydrant Sales	88,198
Wholesale and Standby Fire Sales	113,826
Discounts and Adjustments	(39,373)
Total Water Distribution Revenue	17,917,762
Service Revenue:	
Street Light Revenue	128,281
Franchise Fees	674,868
Other Charges	336,970
Total Service Revenue	1,140,120
NON-OPERATING REVENUE	
Investment Income, Net of Service Fees	(264,422)
Rental Income	333,756
Other Income	34,266
Gain on Disposal of Assets	29,168
Interest on Long-Term Debt	(10,242)
Total Nonoperating Revenue	122,526
Total Revenue	19,180,407
OPERATING EXPENSE	
Supply	5,021,716
Pumps, Reservoirs & Telemetry	284,607
Wells & Water Treatment	741,571
Transmission & Distribution	2,723,919
Customer Accounts	808,277
Administration & General	3,425,028
Depreciation and Amortization	4,495,950
Total Operating Expense	17,501,069
CHANGES IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	1,679,339
Capital Contributions	1,763,607
CHANGE IN NET POSITION	3,442,946
TOTAL NET POSITION JANUARY 1	129,313,738
TOTAL NET POSITION DECEMBER 31	$ 132,756,684

See accompanying Notes to Financial Statements

HIGHLINE WATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$	19,866,400
Cash Paid to Vendors		(16,938,847)
Cash Paid to and for Employees and Commissioners		3,176,020
Net Cash Provided by Operating Activities		6,103,573
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Contributions		987,097
Proceeds from Sale of Assets		68,654
Expenditures for Plant in Service and Construction		(4,037,668)
Payment of Long-Term Debt		(478,680)
Interest paid on Long-Term Debt		(11,318)
Net Cash Used in Capital Financing Activities		(3,471,914)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments		(294,186)
NET DECREASE IN CASH AND CASH EQUIVALENTS		2,337,473
Cash and Cash Equivalents - Beginning of Year		20,336,279
CASH AND CASH EQUIVALENTS - END OF YEAR	$	22,673,753
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:		
Cash and Cash Equivalents - Unrestricted	$	22,667,953
Cash and Cash Equivalents - Restricted		5,799
Total	$	22,673,752

See accompanying Notes to Financial Statements

HIGHLINE WATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	1,556,813
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization		4,495,950
(Increase) Decrease in Assets:		
Accounts Receivable		(632,426)
Inventory		(73,937)
Prepaid Expenses		(73,603)
Net Pension Asset		(954,826)
Deferred Outflows of Resources		(632,282)
Increase (Decrease) in Liablilities:		
Accounts Payable and Accrued Expenses		68,097
Developer Deposits		(66,550)
Other Postemployment Benefits		(217,386)
Net Pension Liability		2,871,140
Deferred inflows of Resources - Pension		(1,678,361)
Deferred Inflows of Resources - Leases		1,072,922
Rental Income		333,756
Miscellaneous Fees		34,266
Net Cash Provided by Operating Activities	$	6,103,573

SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES		
Utility Plant Donations Received	$	776,510

See accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Highline Water District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

Description of Business, Nature of Operations, and Reporting Entity

Highline Water District (the District), a municipal corporation governed by an elected five-member Board of Commissioners and organized under the laws of the state of Washington. The District was formed for the purpose of constructing, maintaining, and operating a water system within its boundaries. The District serves portions of the cities of SeaTac, Des Moines, Kent, Normandy Park, Burien, Tukwila, Federal Way, and a portion of Unincorporated King County. The District has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Newly Implemented Accounting Standards

GASB 87 was implemented January 1, 2022.The District is a lessor for non-cancelable and cancelable 5 or 10 year increment cell tower leases.

The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the (straight-line basis/effective interest method).

Key estimates and judgements related to lease include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The District considers investments in the King County Investment Pool to be cash equivalents. These investments are stated at the fair value of the Pool's underlying assets.

Accounts Receivable

The District utilizes the allowance method of accounting for doubtful accounts. Washington State law allows the District to file a lien against real property for unpaid service charges. Once filed, these liens are junior only to general property taxes. Therefore, no provision is made for uncollectible service charges. These delinquencies were not reclassified as noncurrent.

Inventory

The Districts inventory consists of primarily of water meters, materials and supplies used in the construction and repair for water lines and or related system components. The inventory is stated at the lower of cost (using the average method) or market value.

Capital Assets

Capital assets are defined by the District as assets with initial individual costs of more than $5,000, and an estimated useful life in excess of one year. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are stated at cost when known and include the capitalized portion of District employees' wages and related overhead costs. For water systems installed by developers or customers and conveyed to the District by bill of sale, the District records the cost of the system at the contributing party's costs, contract price or appraised value. When capital assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Office Building	3-30 Years
Pumping Stations	50 Years
Mains and Reservoirs	5-50 Years
Meters and Hydrants	10-50 Years
Equipment	3-10 Years

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For purposes of calculating the restricted net position to the net pension asset, the District includes the net pension asset and related deferred outflows and deferred inflows.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

Deferred outflows of resources are expenses that occur in future period and are not recognized until that time. For pension-related expenses, deferred outflows of resources include contributions made after the measurement date, (June 30) and the District's proportionate share of deferred outflows related to those pension plans. These deferred outflows of resources are recognized as a reduction of the net pension liability in the following year. The difference between projected and actual earnings on plan investments are amortized over a closed five-year period, while the remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred outflows of resources related to other postemployment benefits (OPEB) consists of payments to OPEB after the measurement date (June 30).

Deferred Outflows/Inflows of Resources (Continued)

Deferred inflows of resources are revenues that be received in future periods and are not recognized until that time. For pension-related revenues, deferred inflows of resources include the District's proportionate share of deferred inflows related to pension plans. The difference between projected and actual earnings on plan investments are amortized over a closed five-year period, while the remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Compensated Absences

The District accrues accumulated unpaid vacation, sick leave and compensatory time amounts at year end at the employee's current rate of pay.

Vacation leave, which may be accumulated up to a maximum of 384 hours, is payable (up to 320 hours) upon resignation, retirement, or death.

Upon termination other than retirement, an employee shall receive payment for up to 180 hours of then accrued sick leave benefits at the employee's current rate of pay. In addition, upon retirement, an employee shall receive 40% of their unused sick leave in excess of 180 hours into their HRA VEBA account.

Compensatory time may accumulate up to a maximum of 60 hours and is payable upon resignation, retirement, or termination.

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

NOTE 1 SUMMARY OF AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products and services in connection with the District’s water system. Operating expenses include the costs associated with providing the District’s products and services, general and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Capital Contributions

Grants, ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

Use of Estimates in Financial Statement Preparation

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

Subsequent Events

After careful evaluation, the management team has determined that the Tyee Well cannot resume operations until a suitable solution has been identified to address PFAS. This decision was make to ensure that our customers can have complete confidence in the safety and reliability of the Districts water sources.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

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

Breakdown of Deposit	2022	2021
Petty Cash Fund	$ 1,100	$ 1,100
Specialized Funds	16,000	16,000
Bank Clearing Account	27,710	22,003
Interlocal Account	5,377	5,292
Investment in King County Investment Pool	5,799	7,652
King County Investment Pool - Cash	22,617,766	20,284,232
Total Cash and Investments	$ 22,673,753	$ 20,336,279

Investments

In accordance with State law, the District's governing body has entered a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is $1. The King County Executive Finance Committee provides oversight of the Pool.

As of December 31, 2022, the District had the following investments:

Investment Type	Fair Value	Average Effective Duration
King County Investment Pool:		
Main Pool	$ 22,617,766	.99 Years
Impaired Pool	5,799	

Impaired Investments

As of December 31, 2022, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was $10,338 at December 31, 2022. The District's unrealized loss for these investments was $4,539 on December 31, 2022.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

As of December 31, 2022, the Pool's average duration was .99 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated monthly, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk

As of December 31, 2022, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A"), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1"), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 RESTRICTED ASSETS

In accordance with certain agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets are as follows on December 31, 2022:

	Cash and Cash Equiv. & Inv.
Current Restricted Assets:	
Federal Way Excise Tax Collections	$ -
Custodial Account	5,377
Impaired Investment Pool	5,799
Total	$ 11,177

NOTE 4 CAPITAL ASSETS

Major classes of capital assets and capital asset activity were as follows on December 31, 2022:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Capital Assets Not Being Depreciated				
Land	$ 932,734	$ -	$ -	$ 932,734
Construction in Progress	5,503,040	3,274,456	(3,617,148)	5,160,348
Total	6,435,774	3,274,456	(3,617,148)	6,093,082
Capital Assets Being Depreciated				
Office Building	4,049,538	-	-	4,049,538
Mains and Reservoirs	145,193,733	4,427,724	(544,190)	149,077,267
Meters and Hydrants	18,655,286	359,971	(56,012)	18,959,245
Equipment	6,491,657	144,465	(149,882)	6,486,241
Wells and Springs	2,961,342			2,961,342
Total	177,351,556	4,932,161	(750,084)	181,533,632
		4,929,347		
Accumulated Depreciation				
Office Building	(3,181,123)	(175,811)		(3,356,934)
Mains and Reservoirs	(54,503,356)	(3,328,566)	529,245	(57,302,677)
Meters and Hydrants	(8,200,662)	(681,320)	40,826	(8,841,156)
Equipment	(5,845,014)	(237,475)	140,528	(5,941,961)
Wells and Springs	(1,675,464)	(72,778)		(1,748,242)
Total	(73,405,619)	(4,495,950)	710,599	(77,190,970)
Net Capital Assets	$ 110,381,711	$ 3,710,667	$ (3,656,633)	$ 110,435,744

NOTE 4 CAPITAL ASSETS (CONTINUED)

Major classes of capital assets and capital asset activity were as follows on December 31, 2021:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Capital Assets Not Being Depreciated				
Land	$ 693,971	$ 238,763	$ -	$ 932,734
Construction in Progress	5,566,985	11,888,179	(11,952,124)	5,503,040
Total	6,260,956	12,126,942	(11,952,124)	6,435,774
Capital Assets Being Depreciated				
Office Building	3,973,110	76,428		4,049,538
Mains and Reservoirs	133,719,124	11,889,777	(415,167)	145,193,733
Meters and Hydrants	18,329,154	392,413	(66,281)	18,655,285
Equipment	6,277,068	221,118	(6,529)	6,491,657
Wells and Springs	2,961,342			2,961,342
Comprehensive Plan, net of Accumulated Amortization of $202,277	83,290		(83,290)	0
Total	165,343,088	12,579,736	(571,268)	177,351,556
Accumulated Depreciation				
Office Building	(3,012,080)	(169,043)		(3,181,123)
Mains and Reservoirs	(51,828,431)	(3,020,216)	345,291	(54,503,356)
Meters and Hydrants	(7,542,571)	(710,954)	52,863	(8,200,662)
Equipment	(5,564,241)	(287,302)	6,529	(5,845,014)
Wells and Springs	(1,602,687)	(72,777)		(1,675,464)
Total	(69,550,010)	(4,260,292)	404,683	(73,405,619)
Net Capital Assets	$ 102,054,034	$ 20,446,386	$ (12,118,708)	$ 110,381,711

NOTE 5 LONG-TERM DEBT PAYABLE FROM DIRECT BORROWING UNRESTRICTED ASSETS

Long-term debt payable from unrestricted assets outstanding as of December 31, 2022, consisted of the following direct borrowing loans, secured by revenue of the system, issued for utility construction:

Description	Amount
2003 $749,700 Public Works Trust Fund Loan: Payable $43,386 annually through the year 2023, plus interest at .5 annual percentage rate.	$ 43,386
2004 $808,350 Public Works Trust Fund Loan: Payable $43,254 annually through the year 2024, plus interest at .5 annual percentage rate.	86,508
2006 $666,004 Public Works Trust Fund Loan: Payable $35,502 annually through the year 2026, plus interest at .5 annual percentage rate.	142,006
2008 $2,874,292 Public Works Trust Fund Loan: Payable $152,590 annually through the year 2028, plus interest at .5 annual percentage rate.	915,541
2013 $2,210,000 Public Works Trust Fund Loan: Payable $125,073 annually through the year 2032, plus interest at .25 annual percentage rate.	1,250,731
2003 $128,569 Drinking Water State Revolving Fund Loan: Payable $6,910 annually through the year 2023, plus interest at 1.5 annual percentage rate.	6,910
Subtotal	2,445,082
Less: Current Maturities	406,714
Total	$ 2,038,368

NOTE 5 LONG-TERM DEBT PAYABLE FROM DIRECT BORROWINGS UNRESTRICTED ASSETS (CONTINUED)

Long-term debt service requirements to maturity, payable by the District from unrestricted assets, are as follows:

Year Ending December 31,	Principal	Interest	Total
2023	$ 406,714	$ 9,168	$ 415,882
2024	356,419	7,378	363,797
2025	313,165	5,908	319,073
2026	313,165	4,655	317,820
2027	277,663	3,402	281,065
2028 - 2032	777,956	5,453	783,409
Total	$ 2,445,082	$ 35,964	$ 2,481,046

NOTE 6 CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows December 31, 2022:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
2002 Public Works Trust Fund Loan	$ 71,966		$ (71,966)	$ (0)	$ -
2003 Public Works Trust Fund Loan	86,772		(43,386)	43,386	43,386
2004 Public Works Trust Fund Loan	129,761		(43,253)	86,508	43,254
2006 Public Works Trust Fund Loan	177,508		(35,502)	142,006	35,501
2008 Public Works Trust Fund Loan	1,068,132		(152,591)	915,541	152,590
2013 Public Works Trust Fund Loan	1,375,804		(125,073)	1,250,731	125,073
2003 Drinking Water State Revolving Fund Loan	13,819		(6,909)	6,910	6,910
Total	$ 2,923,762	$ -	$ (478,680)	$ 2,445,082	$406,714
Compensated Absences	$ 505,278	$ 423,851	$ (497,357)	$ 431,772	$497,357
Other Postemployment Benefits	$ 1,701,262	$ -	$ (217,386)	$ 1,483,876	$ 23,132
Net Pension Liability	$ (2,317,190)	$ 1,916,314		$ (400,876)	

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of the GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2022:

OPEB Liabilities	$ 1,483,876
Deferred Outflow of Resources	14,316
OPEB Expense	(194,254)

The District provides its retirees employer subsidies for postemployment medical insurance benefits (OPEB) through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

General Information about the OPEB Plan

Plan Description

The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Benefits Provided

The Washington State Health Care Authority (HCA) administers PEBB plan benefits. For medical insurance coverage, the HCA has two claims pools: one covering employees and non-Medicare eligible retirees, and the other covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employers provide two different subsidies: an explicit subsidy and an implicit subsidy.

The explicit subsidies are monthly amounts paid per post-65 retiree and spouse. As of the valuation date, the explicit subsidy for post-65 retirees and spouses is the lesser of $150 or 50% of the monthly premiums. As of January 1, 2022, the subsidy dollar amount remains at $183 per month. The retirees and spouses currently pay the premium minus $150 when the premium is over $300 per month and pay half the premium when the premium is lower than $300.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retiree pays the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post-65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Employees Covered by Benefit Terms

On December 31, the following employees were covered by the benefit terms:

Employees Covered By Benefits Terms	2022
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	5
Benefit Payments	0
Active Employees	35

Funding Policy

The plan is funded on a pay-as-you-go basis and there are no assets accumulating in a qualifying trust.

Contributions

The OPEB relationship between PEBB employers and their employees and retirees are not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2022 and was determined using the alternative measurement method as of that date. All significant assumptions utilized in the alternative measurement were provided by the Washington State Actuary.

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Total OPEB Liability (Continued)

The alternative measurement was based on the following methods and assumptions:

Methodology:	
Actuarial Valuation Date	6/30/2022
Actuarial Measurement Date	6/30/2022
Actuarial Cost Method	Entry Age
Amortization Method	Recognized Immediately
Assumptions:	
Discount Rate - Based on Bond Buyer General Obligation 20-Bond Municpal Index	
Beginning of Measurement Year	2.16%
End of Measurement Year	3.54%
Projected Salary Changes	3.5% + Service-Based Increases
Healthcare Trend Rates	Initial rate ranges from about 2-11%, reaching an ultimate rate of approximately 4.3% in 2075.

Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, see Office of the State Actuary's 2022 PEBB OPEB Actuarial Valuation Report

Mortality Rates:	
Base Monthly Table	PubG.H-2010(General)
Age Setback	0 year
Mortality Improvements	MP-2017 Long-Term Rates
Projection Period	Generational
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

Changes in the Total OPEB Liability

	2022
Balance - January 1	$1,701,262
Service Cost	84,638
Interest	38,327
Change in Experience and Data Assumptions	(317,219)
Change in Benefit Terms	-
Benefit Payments	(23,132)
Other	-
Total	$1,483,876

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following presents the total OPEB liability of the District calculated using a discount rate and healthcare cost trend rates that are 1-percentage point lower or 1-percentage-point higher than the current discount rate and health care cost trend rates:

2022	1% Decrease	Current Rate	1% Increase
Discount Rate	$ 1,779,444	$ 1,483,876	$1,250,362
Healthcare Cost Trend Rate	$ 1,222,685	$ 1,483,876	$1,824,051

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District recognized OPEB expense for the years ended December 31 as follows:

OPEB Exp and Def Outflows

Service Cost	$ 84,638
Interest Cost	38,327
Changes in Experience and Data Assumption	(317,219)
Total	$ (194,254)

NOTE 7 OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

On December 31, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions Subsequent to the Measurement Date	$ 14,316.00	$ -

Deferred outflows and deferred inflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the following year.

NOTE 8 PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2022:

Pension liabilities	$	(553,950)
Pension assets	$	954,826
Deferred outflows of resources	$	958,111
Deferred inflows of resources	$	(974,893)
Pension expense / expenditures	$	(64,674)

State Sponsored Pension Plans

Substantially all the 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, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

NOTE 8 PENSION PLAN (CONTINUED)

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

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

Contributions - The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	10.25%	6.00%
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.39%	6.36%

The District's actual PERS plan contributions were $125,041 to PERS Plan 1 and $209,877 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 Experience Study* and the *2019 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; 3.50% 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%

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society 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 his or her lifetime.

There were no changes in assumptions since the last valuation.

For purposes of the June 30, 2020, Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- 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 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0 percent was used to determine the total liability.

NOTE 8 PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA and their target asset allocation to simulate future investment returns over various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the Net Pension Liability

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
PERS 1	$ 740,069	$ 553,950	$ 391,511
PERS 2/3	1,124,432	(954,826)	(2,663,067)

NOTE 8 PENSION PLAN (CONTINUED)

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
On December 31, 2022, the District reported a total pension asset of $400,876 for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2022):

Pension Asset & Liabilities		
PERS 1	$	(553,950)
PERS 2/3		954,826
Total	$	400,876

The District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/021	Proportionate Share 6/30/022	Change in Proportion
PERS 1	0.020244%	0.019895%	-0.0003490%
PERS 2/3	0.025743%	0.025745%	0.0000020%

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

The collective net pension liability (asset) was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense
For the year ended December 31, 2022, the District recognized pension expense as follows:

Pension Expense		
PERS 1	$	246,107
PERS 2/3		(310,781)
Total	$	(64,674)

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources
On December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

Deferred Outflows of Resources and Deferred Inflows of Resources

	Deferred Outflow of Resources	Deferred Inflows of Resources
PERS 1:		
Differences between expected and actual experience	$ -	$ (91,806)
Net difference between projected and actual investment earnings on pension plan investments	-	
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement da	58,916	
Total PERS 1	58,916	(91,806)
PERS 2/3:		
Differences between expected and actual experience	236,583	(21,615)
Net difference between projected and actual investment earnings on pension plan investments	-	(705,910)
Changes of assumptions	532,183	(139,345)
Changes in proportion and differences between contributions and proportionate share of contributions	32,727	(16,218)
Contributions subsequent to the measurement da	97,701	
Total PERS 2/3	899,195	(883,088)
Total all plans	$ 958,111	$ (974,893)

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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 Ending December 31	PERS 1	PERS 2/3
2023	$ (38,850)	$ (306,687)
2024	$ (35,286)	$ (277,283)
2025	$ (44,265)	$ (340,402)
2026	$ 26,596	$ 218,462
Total	$ (91,806)	$ (705,910)

NOTE 9 DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan assets are invested with the Washington State Department of Retirement Systems. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District contributions to the plan totaled $9,092 in 2022.

NOTE 10 RISK MANAGEMENT

Highline Water District is a member of the Enduris Washington (Pool). Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. For the Pool's fiscal year ending August 31, 2022, there were 527 Enduris members representing a broad array of special purpose districts throughout the state.

The Enduris program provides for various forms of joint self-insurance and reinsurance coverage for its members: Liability coverage, which includes: General Liability, Automobile Liability, Public Officials' Errors and Omissions liability, Terrorism liability and Employment Practices liability;

NOTE 10 RISK MANAGEMENT (CONTINUED)

Property coverage, which includes: Building and Contents, Mobile Equipment, Boiler and Machinery, and Business Interruption/Extra Expense; Automobile Physical Damage coverage; Cyber coverage; Crime blanket coverage; Named Position coverage; and an Identity Fraud reimbursement policy. Pollution and Cyber coverage are provided on a claims made coverage form. Crime coverage is provided on a discovery form. All other coverage is provided on an occurrence coverage form.

Members are responsible for a coverage deductible or co-pay on each covered loss. Each policy year members receive a Memorandum of Coverage (MOC) outlining the specific coverage, limits, and deductibles/co-pays that are applicable to them. In certain cases the Pool may allow members to elect to participate in the programs at limits, coverage, deductibles, and co-pays that are specific to their needs. Enduris is responsible for payment of all covered losses above the member retention, up to the Pool self-insured retention (SIR). Enduris acquires excess/reinsurance from unrelated insurance companies to cover losses above the Pool's SIR up to the coverage maximum limit of liability. The tables below reflect the Pool's SIR, reinsurance limits and member deductibles/co-pays by coverage type.

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
Liability:				
Comprehensive General Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Automobile Liability	Per Occurrence	$1 million	$20 million	$1,000 - $100,000
Public Officials Errors and Omissions Liability	Each Wrongful Act Member Aggregate	$1 million	$20 million $20 million	$1,000 - $100,000
Terrorism Liability(2)	Per Occurrence Pool Aggregate	$500,000 $1 million	$0 Fully funded by Pool	$1,000 - $100,000
Employment Practices Liability	Per Occurrence Member Aggregate	$1 million	$20 million $20 million	20% Copay(3)

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible
(2) Terrorism liability is fully funded by the Pool i.e. no excess/reinsurance is procured.
(3) Members pay a 20% co-pay of costs. By meeting established guidelines, the co-pay may be waived.

NOTE 10 RISK MANAGEMENT (CONTINUED)

Coverage	Coverage Type	Pool Self-Insured Retention	Excess/ Reinsurance Limits	Member Deductibles/ Co-Pays (1)
Buildings and Contents	Per Occurrence	$250,000	$1 billion	$1,000 - $250,000
Mobile Equipment	Per Occurrence	$250,000	$1 billion	$1,000 - $250,000
Boiler and Machinery (3)	Per Occurrence	Varies	$100 million	Varies
Business Interruption (BI)/ Extra Expense(EE) (4)	Per Occurrence	$250,000	$100 million (BI)/ $50 million (EE)	$1,000 - $250,000
Sublimit (5):				
Flood	Per Occurrence	$250,000	$50 million (shared by Pool members)	$1,000 - $250,000
Earthquake	Per Occurrence	5% of indemnity, subject to $250,000 minimum	$10 million (shared by Pool members)	$1,000 - $250,000
Terrorism Primary	Per Occurrence Pool Aggregate	$250,000	$100 million per occurrence $200 million aggregate	$1,000 - $250,000
Terrorism Excess	Per Occurrence APIP Per Occurrence APIP Aggregate	$500,000	$600 million/ Pool aggregate $1.1 billion/ per occurrence APIP program $1.4 billion/ APIP program aggregate	$0
Automobile Physical Damage(6)	Per Occurrence	$25,000; $100,000 for Emergency Vehicles; $250,000 for Emergency Vehicles valued >$750,000	$1 billion	$250 - $1,000
Crime Blanket (7)	Per Occurrence	$50,000	$1 million	$1,000
Named Position (8)	Per Occurrence	$50,000	$1 million	$1,000
Cyber (9)	Each Claim APIP Aggregate	$100,000	$2 million $40 million	20% Copay
Identity Fraud Expense Reimbursement (10)	Member Aggregate	$0	$25,000	$0

NOTE 10 RISK MANAGEMENT (CONTINUED)

(1) Members may request or be required to pay a higher deductible than the minimum for certain coverage and certain types of losses require a specific co-pay or deductible.
(2) Property coverage for each member is based on detailed property schedule. Scheduled items are covered to the extent of the cost of repair or replacement pursuant to the excess/reinsurance policy terms. Under the Alliant Property Insurance Program (APIP) Reinsurance carriers cover insured losses over $250,000 to the limit of $1 billion except for certain types of sub-limited property losses such as flood, earthquake, and terrorism.
(3) Boiler and Machinery self-insured retention for the Pool varies depending on motor horsepower.
(4) Business Interruption/ Extra expense coverage is based on scheduled revenue generating locations/operations. A limited number of members schedule and the rest are limited to $500,000 of coverage with a $2.5 million Pool maximum for undeclared exposure. The waiting period (deductible) is typically 24 hours but there are exceptions specific to the type of exposure covered.
(5) This sublimit list is simplified and is not all-inclusive. In addition, sub-limits are often shared or aggregated by all pool members and, in a few cases, are shared by all APIP members. Deductibles often vary by coverage sub-limit.
(6) Auto Physical Damage coverage includes comprehensive, named perils and collision. Coverage for each member is based on a detail vehicle schedule.
(7) Crime Blanket coverage (also referred to as "Employee Dishonesty Coverage with Faithful Performance" of $2,500 is provided to each member. Member's may elect to "buy-up" the level of coverage from $5,000 to $2 million.
(8) Named Position coverage is optional. Members may elect to schedule various employees, directors, and commissioners, with individual limits of between $5,000 and $1 million.
(9) Cyber coverage is included under the Pool's Property program. Members are subject to a 20% co-pay per loss and the Pool's SIR is tiered between $50,000 and $100,000 depending on the insured/members property TIV with an 8 hour waiting period. By meeting established guidelines, the co-pay may be waived. The reinsurance maximum limit of liability is $2 million, with various declared sub-limits.
(10) Identity Fraud Expense Reimbursement coverage is purchased by Enduris. Member claims do not have a deductible. There is a $25,000 limit per member.

Members make an annual contribution to fund the Pool. Since Enduris is a cooperative program, there is joint liability among the participating members. There were no claim settlements in excess of the insurance coverage in any of the last three policy years.

Upon joining the Pool, members are contractually obligated to remain in the Pool for a minimum of one year and must give notice 60 days before renewal in order to terminate participation. The Interlocal Governmental Agreement (formerly known as the Master Agreement) is automatically renewed each year unless provisions for withdrawal or termination are applied. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in process claims for the period they were a signatory to the Interlocal Governmental Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and administers the claims.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board, and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for overseeing the business affairs of Enduris and providing policy direction to the Pool's Executive Director.

NOTE 11 COMMITMENTS

The District is obligated under construction contracts totaling $8,425,012. As of December 31, 2021, $7,693,552 has been expended.

NOTE 12 MAJOR SUPPLIERS

The District purchased approximately 72% of its water from the City of Seattle for the year ended December 31, 2022. In December 2001, the District signed a "partial-supply" contract with the City of Seattle. This contract assures an adequate supply of water to the District for 60 years. The District along with other purveyors, are in renegotiations with SPU as allowed every 20 years by contract. Negotiations should be finished in 2023.

NOTE 13 LEASES

The District leases space for cell towers on certain tanks and land under non- cancelable and cancelable operating leases.

Per GASB 87, *Leases*, a **lessor** should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases and certain regulated leases:

A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined. See chart below for Cell Tower Leases below:

NOTE 13 LEASES (CONTINUED)

Tank Sites	Address	Type of Lease	Present Value of Lease	Dates of Lease
McMiken #8 (Union Pacific)	3763 S. 164th, Sea Tac, WA 98188	Max 25 Year Lease, **Cancellable Lease both party.** Aggreement rate to be reviewed every 5 years. Rate would increase every 5 years by accumulative CPI-All Urban Consumers.	$ 67,348.38	07/02/2002-07/02/2026
North Hill #9 (T-Mobile)	505 S. 208th St., Des Moines, WA 98198	Max 25 Year Lease, **Cancellable Lease both party.** Aggreement rate to be reviewed every 5 years. Rate would increase by 15% or accumulative CPI-All Urban Consumers. **Which ever is greater**	$ 34,729.71	03/31/1998-03/31/2023
Bow Lake #20 (T-Mobile)	4225 S. 176th, Sea Tac, WA 98188	Max 25 Year Lease, **Noncancelable, Lessee written notice or extend** . Aggreement rate to be reviewed every 5 years. Rate would increase by 5 years	$ 102,249.80	02/26/2007-02/26/2031
Bow Lake #24 (Clearwire)	4225 S. 176th, Sea Tac, WA 98188	Max .25 Year Lease,**Cancellable Lease both party**. Aggreement rate to be reviewed every 5 years. Rate would increase by 10% .	$ 56,038.96	03/23/2007-03/23/2031
Star Lake #25 (T-Mobile)	2831 S. Star Lake Road, Federal Way, WA 98003	Max 25 Year **Cancellable Lease both party.** Aggreement rate to be reviewed every 5 years. Rate would increase by 3.5% .	$ 166,829.55	04/01/2016-04/01/2040
Mansion Hill #27 (Cingular Cell)	21420 31st Ave S., Sea Tac, WA 98188	Max 25 Year **Cancellable Lease both party**. Intital term 10 Years. Aggreement rate to be reviewed every 5 years. Rate would increase by 3.5% .	$ 142,774.39	04/01/2017-04/01/2041
Mansion Hill #28 (T-Mobile)	21420 31st Ave S., Sea Tac, WA 98188	Max 25 Year **Cancellable Lease both party**. Intital term 10 Years. Aggreement rate to be reviewed every 5 years. Rate would increase by 3.5% .	$ 244,852.03	05/15/2018-05/15/2043
Bow Lake #31 (AT & T)	4225 S. 176th, Sea Tac, WA 98188	Initial 10 year Term commensing 4/1/2020 and terminating 3/31/2030Automatically renewed for 3 more periods. Max 25 Year **Cancellable Lease both party.** Aggreement rate to be reviewed every 5 years. Rate would increase by 3.5% .	$ 285,953.21	04/01/2020-04/01/2045
McMiken #32 (AT & T)	3763 S. 164th, Sea Tac, WA 98188	Initial 10 year Term commensing 4/1/2020 and terminating 3/31/2030Automatically renewed for 3 more periods. Max 25 Year **Cancellable Lease both party.** Aggreement rate to be reviewed every 5 years. Rate would increase by 3.5% .	$ 285,953.21	04/01/2020-04/01/2045

NOTE 13 LEASES (CONTINUED)

The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, is stated in the chart below:

The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties.

2022 Lease Recon	112121	214001	321006	322000	Month To Month	Month To Month	Month To Month	01-000-322000-0000-000
	Lease Receivable	Deferred Inflow	Interest Income - Leases	Lease Revenue	LS-6003	LS-6014	LS-6000	Total Yearly and Holdover Lease Revenue
2022	**1,158,400.99**	**1,072,922.28**	**20,905.52**	**(270,953.64)**	(14,340.96)	(47,085.92)	(1,375.00)	**(333,755.54)**
2023	**971,387.05**	**865,659.79**	71,447.64	(115,117.99)				
2024	**785,376.04**	**622,489.92**	59,913.03	(100,168.11)				
2025	**580,726.36**	**450,767.12**	48,440.26	(91,328.97)				
2026	**449,666.38**	**320,232.38**	35,817.92	(74,108.05)				
2027	**333,463.46**	**200,477.21**	27,734.44	(61,695.51)				
2028	**205,540.13**	**110,104.28**	20,567.29	(27,628.14)				
2029	**113,708.79**	**29,525.43**	12,677.27	(12,677.27)				
2030	**13,040.21**	**938.07**	7,013.26	(7,013.26)				
2031	-	**0.00**	804.29	(804.29)				
2032	-	-	-	-				
2033	-	-	-	-				

The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments <u>if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments</u>.

As of December 31, 2020, future lease receivable principal and interest payments are as follows:

Year ended December 31	Principle	Interest	Total
2022	228,328	20,906	249,234
2023	187,014	71,448	258,462
2024	186,011	59,913	245,924
2025	204,650	48,440	253,090
2026-2030	567,686	103,810	671,496
2031-2035	13,040	804	13,844
2036-2040	-	-	-
2041-2045	-	-	-
Total	1,386,729	305,321	1,692,050

NOTE 14 FEDERAL GRANT (WA STATE DEPARTMENT OF COMMERCE)

Department of Commerce Grant # 22-56104-045 awarded Highline Water District $29,000 for utility residential customers in arrearages. This was applied to customer accounts with arrearages accrued between 3/1/2020 thru 12/31/2021.

HIGHLINE WATER DISTRICT
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
PUBLIC EMPLOYEES BEFEFITS BOARD
FOR THE YEAR ENDED DECEMBER 31, 2022
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018
Total OPEB liability - beginning	$ 1,701,262	$ 1,824,083	$ 1,366,178	$ 1,493,312	$ 1,454,700
Service cost	84,638	88,091	69,163	71,787	79,082
Interest	38,327	41,964	49,855	60,302	54,827
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(317,219)	(226,044)	397,053	(245,254)	(90,630)
Changes in assumptions					
Benefit payments	(23,132)	(26,832)	(21,988)	(13,969)	(4,667)
Other changes	-	-	-	-	-
Total OPEB liability - ending	$ 1,483,876	$ 1,701,262	$ 1,860,261	$ 1,366,178	$ 1,493,312
Covered-employee payroll	$ 3,279,374	$ 3,069,914	$ 2,995,988	$ 2,860,819	$ 2,662,985
Total OPEB liability as a % of covered payroll	45.25%	55.42%	62.09%	47.75%	56.08%

*Information is presented only for those years for which information is available.

Note to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

HIGHLINE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 1
AS OF JUNE 30, 2022 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.019895%	0.020244%	0.019633%	0.021180%	0.020265%	0.020457%	0.020661%	0.020926%
Employer's Proportionate Share of the Net Pension Liability	$ 553,950	$ 247,227	$ 693,151	$ 814,446	$ 905,042	$ 970,701	$ 1,109,592	$ 1,094,624
Covered Payroll	$ 3,255,221	$ 2,981,603	$ 2,791,350	$ 2,771,530	$ 2,484,851	$ 2,476,082	$ 2,369,730	$ 2,313,145
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	17.02%	8.29%	24.83%	29.39%	36.42%	39.20%	46.82%	47.32%
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%

*Information is presented only for those years for which information is available.

Note to Schedule:

The District had one employee covered under PERS 1. The remaining PERS 1 contribution are from the component of PERS 2 contributions required to address the PERS1 unfunded actuarially accrued liability (UAAL).

HIGHLINE WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS 2/3
AS OF JUNE 30, 2022 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.025745%	0.024790%	0.024790%	0.025382%	0.024003%	0.024405%	0.024643%	0.025301%
Employer's Proportionate Share of the Net Pension Liability	$ (954,826)	$ (2,564,417)	$ 317,050	$ 246,546	$ 409,830	$ 847,957	$ 1,240,756	$ 904,019
Covered Payroll	$ 3,243,445	$ 2,970,723	$ 2,778,082	$ 2,669,416	$ 2,403,062	$ 2,394,182	$ 2,295,253	$ 2,244,998
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	-29.44%	-86.32%	11.41%	9.24%	17.05%	35.42%	54.06%	40.27%
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%

*Information is presented only for those years for which information is available.

HIGHLINE WATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 1
PERIOD ENDING DECEMBER 31, 2022 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or Contractually Required Contributions	$ 125,041	$ 134,114	$ 143,555	$ 152,174	$ 145,044	$ 130,960	$ 121,452	$ 106,304
Contributions in Relation to the Statutorily or Contractually Required Contributions*	(125,041)	(134,114)	(143,555)	(152,174)	(145,044)	(130,960)	(121,452)	(106,304)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll*	$ 3,322,656	$ 3,076,645	$ 2,948,649	$ 2,984,334	$ 2,742,674	$ 2,579,547	$ 2,438,037	$ 2,329,431
Contributions as a percentage of covered payroll	3.76%	4.36%	4.87%	5.10%	5.29%	5.08%	4.98%	4.56%

*Information is presented only for those years for which information is available.

Note to Schedule:

The District had one employee covered under PERS 1. The remaining PERS 1 contribution are from the component of PERS 2 contributions required to address the PERS1 unfunded actuarially accrued liability (UAAL).

HIGHLINE WATER DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERS 2/3
PERIOD ENDING DECEMBER 31, 2022 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS*

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or Contractually Required Contributions	$ 209,877	$ 220,730	$ 234,432	$ 224,077	$ 198,676	$ 169,643	$ 151,121	$ 131,720
Contributions in Relation to the Statutorily or Contractually Required Contributions*	(209,877)	(220,730)	(234,432)	(224,077)	(198,676)	(169,643)	(151,121)	(131,720)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll*	$ 3,310,368	$ 3,064,357	$ 2,936,361	$ 2,916,828	$ 2,657,073	$ 2,497,170	$ 2,357,570	$ 2,261,761
Contributions as a percentage of covered payroll	6.34%	7.20%	7.98%	7.68%	7.48%	6.79%	6.41%	5.82%

*Information is presented only for those years for which information is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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