Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Alderwood Water and Wastewater District

For the period January 1, 2023 through December 31, 2023

Published November 12, 2024

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Office of the Washington State Auditor
Pat McCarthy

November 12, 2024

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

Report on Financial Statements

Please find attached our report on the Alderwood Water and Wastewater 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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Alderwood Water and Wastewater District
January 1, 2023 through December 31, 2023

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, 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 Alderwood Water and Wastewater District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 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

November 4, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Alderwood Water and Wastewater District
January 1, 2023 through December 31, 2023

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2023, 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 Alderwood Water and Wastewater District, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 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

Pat McCarthy, State Auditor

Olympia, WA

November 4, 2024

FINANCIAL SECTION

Alderwood Water and Wastewater District
January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

INTRODUCTION

Alderwood Water & Wastewater District (the District) was founded in 1931 and provides water and wastewater service to customers residing within the District boundaries.

The District has the largest service area for a water and wastewater district in the State of Washington, serving a population of over 250,000 retail and wholesale customers. The District service area is approximately 44 square miles and includes unincorporated areas and portions of the cities of Bothell, Lynnwood, Mountlake Terrace, Mill Creek, Mukilteo, and Brier.

Our mission is to provide clean, reliable water and wastewater services for a healthy community.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2023 and our financial performance for the year then ended. Please read these comments in conjunction with the financial statements, notes to the financial statements, and required supplementary information which follows this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include 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 statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. This statement provides 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). It 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 present 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 our profitability and credit worthiness.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

	2023	2022
Capital Assets	$ 603,249,291	$ 574,227,282
Other Assets	168,233,150	154,039,990
Total Assets	771,482,441	728,267,272
Deferred Outflows of Resources	4,869,181	5,400,583
Long-Term Liabilities	77,398,966	85,500,727
Other Liabilities	19,935,637	17,257,017
Total Liabilities	97,334,603	102,757,744
Deferred Inflows of Resources	2,380,827	4,366,524
Net Investment in Capital Assets	520,823,375	489,685,186
Restricted Amounts	3,938,679	8,792,495
Unrestricted Amounts	151,874,138	128,147,287
Total Net Position	$ 676,636,192	$ 626,624,968

ANALYSIS OF THE STATEMENT OF NET POSITION

- Capital assets consist of land; construction in progress; plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The $29.0 million increase in net capital assets is primarily due to assets contributed by developers through system extensions in the amount of $33.1 million less retirements and depreciation.

- Change in long-term liabilities reflects principal payments on long-term debt.

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

	2023	2022
Water Charges for Services	$ 46,458,331	$ 43,735,307
Wastewater Charges for Services	66,629,509	60,342,037
Other Charges for Services	1,096,727	1,050,342
Total Operating Revenues	114,184,567	105,127,686
Personnel Services	19,155,440	17,301,508
Supplies and Services	14,767,483	13,935,660
Purchased Water	16,117,387	17,786,832
Purchased Wastewater	35,112,563	32,653,496
Depreciation and Amortization	20,265,807	19,242,756
Taxes	2,288,029	2,198,339
Total Operating Expenses	107,706,709	103,118,591
Operating Income	6,477,858	2,009,095
Nonoperating Revenues (Expenses):		
Investment Gain (Loss)	5,122,482	(1,464,743)
Interest on Assessments	642	793
Interest Income - Leases	10,708	15,666
Lease Revenue	190,521	230,116
Interest Expense - Leases	(54,725)	(55,747)
Interest Expense - Subscriptions	(3,464)	-
Rental Income	61,155	290,584
Miscellaneous	293,062	209,918
Net Loss on Disposal of Assets	(661,452)	(808,600)
Interest and Amortization on Long-Term Debt	(1,614,558)	(1,733,904)
Total Nonoperating Revenues (Expenses)	3,344,371	(3,315,917)
Income (Loss) Before Capital Contributions	9,822,229	(1,306,822)
Capital Contributions	40,188,995	53,482,576
Increase in Net Position	50,011,224	52,175,754
Net Position, January 1	626,624,968	574,449,214
Net Position, December 31	$ 676,636,192	$ 626,624,968

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

- Total operating revenue increased by 9.1% in 2023. This is due to rate increases and increased water consumption.

- There was a 4.9% increase in operating expenses attributable to increased labor costs and increased rates in both purchased water and purchased wastewater treatment.

- There was an 200.9% increase in nonoperating income resulting from an unrealized investment gain due to the increase in fair value of the District's investments.

- Capital contributions are general facility charges (GFC) revenues and developer-contributed assets. These assets are donated to the District once a new development is complete and approved by the District. In 2023, contributed systems included $33.1 million in depreciable assets such as water and wastewater mains.

FINANCIAL HIGHLIGHTS

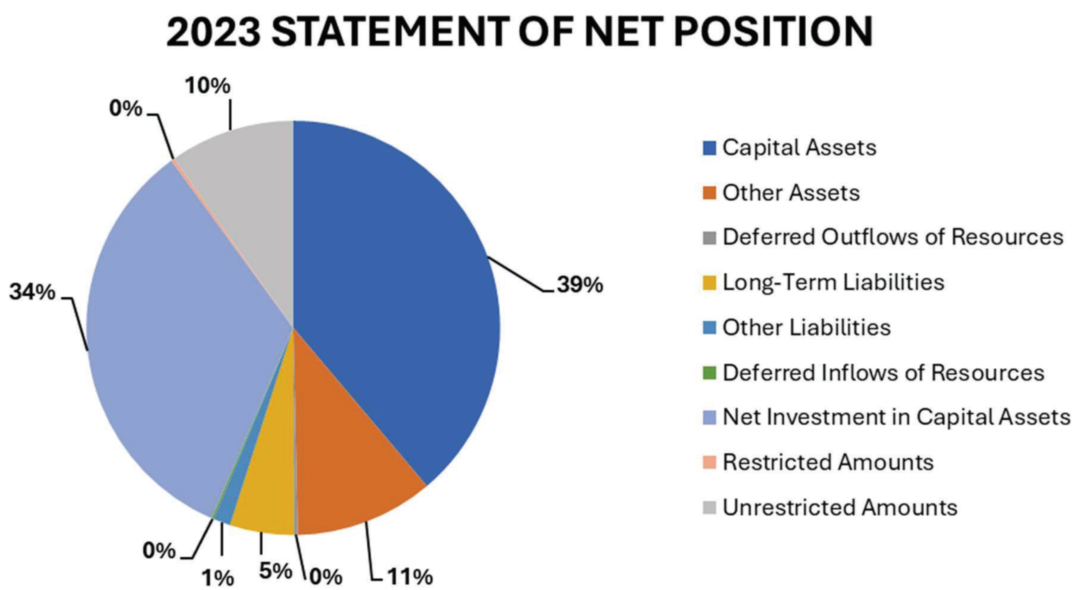
- For the year ending December 31, 2023, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by $676.6 million. Of this amount, 22.4% or $151.9 million is unrestricted net position and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets, $520.8 million or 77.0%, restricted for debt service payments, $23.7 thousand, and restricted for pensions, $3.9 million or 0.6%.

- As of the end of 2023, the District's total net position increased by $50.0 million or 8.0% from the prior year.

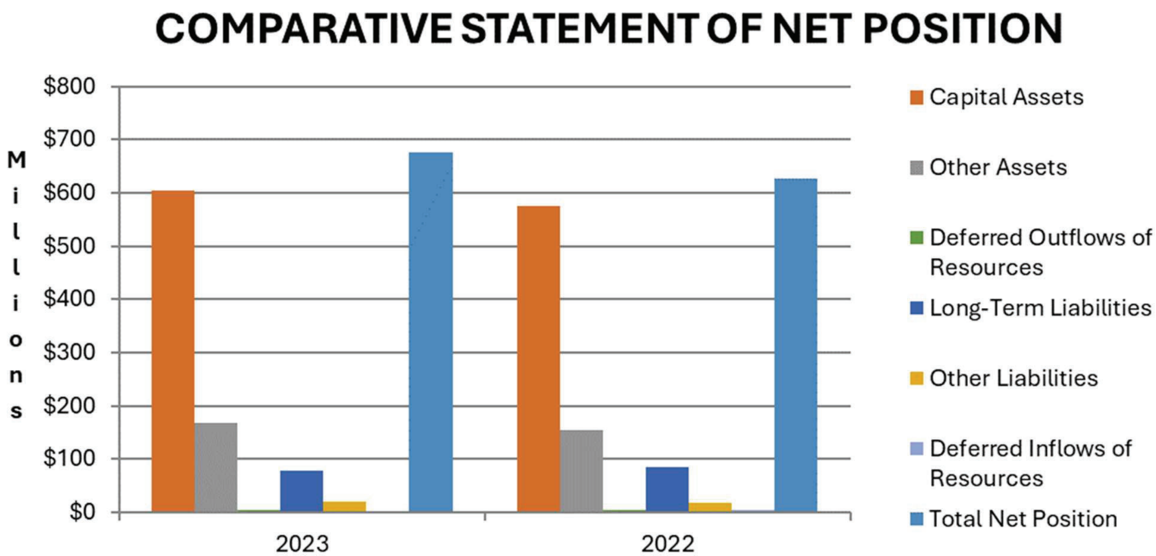
FINANCIAL POSITION

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations. There are no restrictions, commitments, or other limitations that would significantly affect the availability of fund resources for future use. Capital assets have continued to increase as new connections have been added to our water and wastewater systems and significant investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

The following charts indicate the components of financial position:

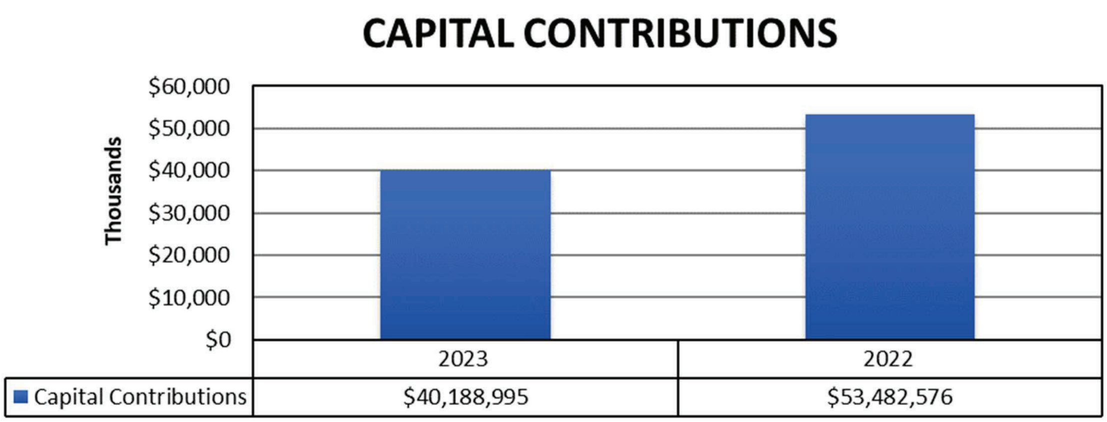


FINANCIAL POSITION (CONTINUED)



CAPITAL CONTRIBUTIONS

The following chart indicates capital contributions over the last two years:



These contributions are a result of continuing growth in the number of District customers. They include donated systems totaling $33,067,930 and $43,944,480 for the years ended December 31, 2023 and 2022, respectively. The activity in capital contributions in 2023 and 2022 was consistent with the business climate, as construction activity remained robust during those years.

CAPITAL ASSETS

	2023	2022	Increase (Decrease)	% Change
Land	$ 6,854,973	$ 5,953,488	$ 901,485	15.1%
Construction in Progress	11,990,013	15,594,238	(3,604,225)	-23.1%
Development in Progress	322,103	-	322,103	100.0%
Total Assets Not Being Depreciated	19,167,089	21,547,726	(2,380,637)	-11.0%
Plant	191,979,656	191,973,670	5,986	0.0%
Distribution and Collection Systems	608,243,035	558,788,669	49,454,366	8.9%
Machinery and Equipment	34,775,051	33,443,110	1,331,941	4.0%
Less Accumulated Depreciation	(252,808,423)	(233,313,606)	19,494,817	8.4%
Depreciable Assets, Net	582,189,319	550,891,843	31,297,476	5.7%
Lease Assets, Net	1,712,413	1,787,713	(75,300)	-4%
Subscription Assets, Net	180,470	-	180,470	100%
Net Capital Assets	$ 603,249,291	$ 574,227,282	$ 28,841,539	5.0%

ANALYSIS OF CHANGES IN CAPITAL ASSETS

Capital assets being depreciated increased $31.3 million from 2022 to 2023. This was mostly made up of:

- $49.5 million net increase to distribution and collection systems. $33.1 million is from developer contributions.
- Construction-in-progress decreased $3.6 million. This is mainly due to construction costs incurred during 2023 for projects substantially completed and capitalized at year-end in excess over not completed construction projects compared to 2022. There were several large projects completed and capitalized, including the 164th St. Transmission Main Relocation for $13.1 million and the Exposed Sewer Pipe Replacement for $2.6 million.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 4, and 5.
- Information about lease assets can be found in Note 6.
- Information about subscription-based information technology arrangements (SBITAs) can be found in Note 7.

LONG-TERM DEBT

At the end of the current fiscal year, the District had total long-term debt outstanding of $73.7 million; the decrease of $6.2 million is a result of principal payments made and no new borrowing in 2023.

The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. (Moody's) has assigned a rating of "Aa2". In October 2020, S&P affirmed its "AA+" rating for the District and Moody's affirmed its "Aa2" rating. Additional detailed information about the District's long-term debt can be found in Note 8 to the financial statements.

	2023	2022
Public Works Trust Fund Loans	$ 1,358,315	$ 1,846,419
State Revolving Fund Loans	9,933,795	10,867,898
Revenue Bonds	62,380,000	67,180,000
Total	$ 73,672,110	$ 79,894,317

See notes 4, 5, 6, 7, 8, and 9 in the financial statements for detailed activity on capital assets and long-term debt.

On November 12, 2020, the District issued $74,200,000 of Water and Sewer Revenue and Revenue Refunding Bonds, Series 2020A ($51,060,000) and Series 2020B ($23,140,000). Of the $74,200,000 issued, $51,060,000 of the bonds were used to refund $44,605,000 of outstanding 2010 bonds and $23,140,000 of the bonds were used to advance refund $19,940,000 of outstanding 2013 bonds. See Note 10 in the financial statements for more details.

ADDITIONAL COMMENTS

The District is dependent on the City of Everett for wholesale water and other governments for treatment of a portion of the wastewater collected by the District. The cost for this product and service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Alderwood Water & Wastewater District, 3626 – 156th St. SW, Lynnwood, WA 98087.

ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Unrestricted:	
Cash and Cash Equivalents	$ 61,783,601
Investments	48,752,011
Receivables, Net	18,671,239
Lease Receivable	112,212
Capacity Charge Receivable - Current Portion	137,947
Interest Receivable	471,700
Inventory	1,222,281
Prepaid Expenses	1,241,601
Total Unrestricted	132,392,592
Restricted:	
Cash Equivalents	1,372,750
Assessments Receivable	23,740
Total Restricted	1,396,490
Total Current Assets	133,789,082
NONCURRENT ASSETS	
Unrestricted:	
Investments	29,463,694
Lease Receivable	195,387
Capacity Charge Receivable, Less Current Portion	569,403
Deposits with Fiscal Agent/Trustee	300,645
	30,529,129
Restricted:	
Net Pension Asset	3,914,939
Total Restricted	3,914,939
Capital Assets Not Being Depreciated	19,167,089
Capital Assets, Net of Accumulated Depreciation and Amortization	584,082,202
Net Capital Assets	603,249,291
Total Noncurrent Assets	637,693,359
Total Assets	771,482,441
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding of Debt	1,507,447
Deferred Outflows Related to Pensions	3,361,734
Total Deferred Outflows of Resources	4,869,181
Total Assets and Deferred Outflows of Resources	$ 776,351,622

The notes to financial statements are an integral part of this statement.

ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2023

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts Payable	$	7,127,761
Accrued Liabilities		21,050
Accrued Salaries and Benefits		712,459
Lease Liability		53,438
Subscription Liability		52,342
Compensated Absences		1,485,734
Customer Deposits		2,830,734
Accrued Interest		256,704
Long-Term Debt - Current Maturities		6,465,650
Total Payable from Unrestricted Assets		19,005,872
Payable from Restricted Assets:		
Accounts Payable		929,765
Total Payable from Restricted Assets		929,765
Total Current Liabilities		19,935,637
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Maturities		73,420,500
Lease Liability		1,704,148
Subscription Liability		54,676
Compensated Absences		497,047
Net Pension Liability		1,722,595
Total Noncurrent Liabilities		77,398,966
Total Liabilities		97,334,603
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Leases		294,677
Deferred Inflows Related to Pensions		2,086,150
Total Deferred Inflows of Resources		2,380,827
Total Liabilities and Deferred Inflows of Resources		99,715,430
NET POSITION		
Net Investment in Capital Assets		520,823,375
Restricted for Debt Service		23,740
Restricted for Pensions		3,914,939
Unrestricted		151,874,138
Total Net Position		676,636,192
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	776,351,622

The notes to financial statements are an integral part of this statement.

ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES	
Water Charges for Services	$ 46,458,331
Wastewater Charges for Services	66,629,509
Other Charges for Services	1,096,727
Total Operating Revenues	114,184,567
OPERATING EXPENSES	
Personnel Services	19,155,440
Supplies and Services	14,767,483
Purchased Water	16,117,387
Purchased Wastewater	35,112,563
Depreciation and Amortization	20,265,807
Taxes	2,288,029
Total Operating Expenses	107,706,709
OPERATING INCOME	6,477,858
NONOPERATING REVENUES (EXPENSES)	
Investment Gain	5,122,482
Interest on Assessments	642
Interest Income - Leases	10,708
Lease Revenue	190,521
Interest Expense - Leases	(54,725)
Interest Expense - Subscriptions	(3,464)
Rental Income	61,155
Miscellaneous	293,062
Net Loss on Disposal of Assets	(661,452)
Interest and Amortization on Long-Term Debt	(1,614,558)
Total Nonoperating Revenues (Expenses)	3,344,371
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	9,822,229
Capital Contributions - General Facility Charges	5,379,740
Capital Contributions - Developers	34,809,255
CHANGE IN NET POSITION	50,011,224
Net Position - Beginning of Year	626,624,968
	$ 676,636,192

The notes to financial statements are an integral part of this financial statements.

ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 110,089,661
Cash Paid to Vendors	(64,133,961)
Cash Paid to and for Employees and Commissioners	(22,273,322)
Net Cash Provided by Operating Activities	23,682,378
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	7,121,065
Interest Received on Assessments	642
Collections on ULID Assessments	5,145
Proceeds from Sale of Assets	34,403
Lease Payments Paid	(107,999)
Lease Payments Received	197,409
Subscription Payments Paid	(140,179)
Principal Paid on Debt	(6,222,207)
Interest Paid on Long-Term Debt	(2,671,113)
Expenditures for Plant in Service and Construction	(15,685,440)
Other Capital Related Receipts	357,111
Net Cash Used by Capital and Related Financing Activities	(17,111,163)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	32,190,000
Purchase of Investments	(31,386,320)
Interest Received on Investments	2,608,774
Net Cash Provided by Investing Activities	3,412,454
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,983,669
Cash and Cash Equivalents - Beginning of Year	53,172,682
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 63,156,351
Cash and Cash Equivalents Balance is Comprised of the Following at December 31:	
Cash and Cash Equivalents - Unrestricted	$ 61,783,601
Cash Equivalents - Restricted	1,372,750
Total	$ 63,156,351

The notes to financial statements are an integral part of this statement.

ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 6,477,858
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation and Amortization	20,265,807
(Increase) Decrease in Assets and Deferred	
Outflows of Resources:	
Receivables, Net	(2,543,679)
Inventory	(40,011)
Prepaid Expenses	(122,739)
Capacity Charge Receivable	89,686
Net Pension Asset	(196,367)
Deferred Outflows Related to Pensions	408,963
Increase (Decrease) in Liabilities and Deferred	
Inflows of Resources:	
Accounts Payable and Deposits	1,226,923
Accrued Liabilities	2,261
Accrued Salaries and Compensated Absences	243,945
Net Pension Liability	(454,000)
Deferred Inflows Related to Pensions	(1,676,269)
Net Cash Provided by Operating Activities	$ 23,682,378
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES	
Utility Plant Donations Received	$ 33,067,930
Increase (Decrease) in Fair Value of Investments	$ 2,268,664
Obligation Incurred for Subscription-Based Information Technology	$ 162,351

The notes to financial statements are an integral part of this statement.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Description of Business, Nature of Operations, and Reporting Entity

Alderwood Water and Wastewater District (the District), a municipal corporation organized under the laws of the state of Washington, was incorporated in 1931 and created for the purpose of constructing, maintaining, and operating water and wastewater systems within its boundaries. The District is governed by an elected five-member board and 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.

Adoption of New Accounting Standard

In May 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.

The District adopted and applied the provisions of this standard effective January 1, 2023.

Cash and Cash Equivalents

The District's cash and cash equivalents are cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value except for investments in the Washington State Local Government Investment Pool which are reported at amortized cost and classified as cash equivalents. Additional detailed information on investments can be found in Note 2.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables, Net

The District utilizes the allowance method of accounting for doubtful accounts. Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien, foreclosure, and water shutoff rights provided by RCW 57.08.081. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Unbilled utility service receivables totaling $10,252,047 were recorded and are reflected in Receivables, Net at year-end.

Inventory and Prepaid Expenses

Inventory consists of material and supplies available for future use and is stated at the lower of cost, using the first in first out (FIFO) method or net realizable value. The cost of inventory is recorded as expense when consumed, rather than when purchased.

Certain payments to vendors, such as insurance and maintenance agreements, reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

Capacity Charge Receivables

The District's capacity charge receivables consist of capacity charges billable to customers over the next 13 years. In the 2013 contract amendment to the King County Sewer Disposal Agreement, it was agreed that, as a result of redirecting the sewage and waste of Area D away from King County's regional wastewater facilities to the District's Picnic Point Wastewater Treatment Facility, the District would pay the County the amount of capacity charges still owed and the County would assign the District the right to collect those capacity charges. The District began billing customers in 2020 and will continue on a quarterly basis until all installments are billed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., mains, valves, and similar items), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded using a unit cost method.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency or extend the useful life of the asset.

The costs for normal maintenance and repairs are not capitalized.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are completed.

Land and construction in progress are not depreciated. Other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Useful Life
Building	40 - 50 Years
Building Improvements	25 Years
Vehicles	7 Years
Equipment	3 - 10 Years
Reservoirs	75 Years
Water Pipes	75 Years
Wastewater Pipes	50 Years

Additional detailed information on capital assets can be found in Note 4.

Leases

The District is a lessee for various noncancellable leases for land and equipment. In accordance with GASB 87, lessee arrangements are included as lease liabilities and right-to-use assets in the statement of net position. A lease liability is measured at present value of payments expected to be made during the lease term. The future lease payments are discounted using an estimated incremental borrowing rate (IBR), the interest rate that would be charged for borrowing. The District is also a lessor of cell towers and space in buildings not currently occupied. The District records lease receivables and deferred inflows of resources based on the present value of receipts expected over the course of the lease term, using the IBR. Additional information on leases can be found in Note 6.

Subscription-based Information Technology Arrangements (SBITA)

The District is a purchaser for various subscription information technologies. SBITA assets are initially measured as the sum of the present value of payments expected to be made during the subscription term, payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, when applicable, and capitalizable implementation costs, less any SBITA vendor incentives received form the SBITA vendor at the commencement of the SBITA term. SBITA assets are amortized in a systematic and rational manner over the shorter of the subscription term or the useful life of the underlying IT assets. Additional information on SBITA can be found in Note 7.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension asset/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 related to the net pension asset, the District includes the net pension asset only.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability or as an addition to the net pension asset in the following year.

Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of leases and the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to leases are recognized using the straight-line method over the lease term. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. 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.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay are accrued when incurred. Vacation pay, which may be accumulated up to 240 hours per employee, is payable upon resignation, retirement, or death. Employees may sell back to the District accrued but unused vacation benefits with certain restrictions, up to a maximum of 80 hours for non-represented staff and 40 hours for represented staff.

Sick leave may accumulate indefinitely and is payable in part upon separation, retirement, or death. For non-represented staff, and represented staff hired after January 1, 2014, upon voluntary separation, the employee will receive 25% of the accrued and unused sick leave after 10 years of service or 50% after 20 years of service. For represented staff hired before this date, the employee will receive 50% of the accrued and unused sick leave after 10 years of service. Upon death of an employee, his/her beneficiary will receive 50% of the accrued and unused sick leave. Annually an employee may sell back to the District accrued sick leave in excess of 384 hours at 50% of the current hourly rate.

Vacation benefits are accrued for all eligible employees. Sick leave benefit amounts for represented and non-represented employees are accrued for employees with 10 or more years of service.

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

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.
>
> *Restricted* – This component of net position consists of the net pension asset, without addition for deferred outflows of resources related to pension or reduction for deferred inflows of resources related to pension, and assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

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 and expenses result from providing services and producing and delivering goods in connection with the District's principle ongoing operations. The principal operating revenues of the District are charges to customers for water and wastewater services. Operating expenses for the District include the cost of water from the wholesale provider, wastewater treatment costs, administrative services, operating and maintenance costs, depreciation and amortization on capital assets, and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Other Charges for Services

Other charges include preliminary engineering charges, water use permits, side sewer permits, industrial waste surcharges, and sales of supplies and materials.

Capital Contributions

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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2023 was $3,100 and the bank balance was $32,174,063

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Investments

All surplus cash is invested in accordance with an investment policy approved by the District's Board of Commissioners. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080).

The District is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Municipal Debt Obligations, Corporate Notes, Commercial Paper, Certificates of Deposit with qualified public depositories within statutory limits as promulgated by the Washington State PDPC at the time of investment, Bankers Acceptances, Local Government Investment Pool managed by the Washington State Treasurer's office, and in other investments authorized by law.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

Investments Measured at Amortized Cost

Washington State Local Government Investment Pool	$	30,979,188

Investments in Local Government Investment Pool

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

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

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Local Government Investment Pool (Continued)

As of December 31, 2023, the District held $30,979,188 in LGIP investments which includes unspent bond proceeds of $1,372,750

Investments Measured at Fair Value

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

> *Level 1*: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
>
> *Level 2*: Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes assets and liabilities valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liabilities.
>
> *Level 3*: Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the District's own assumptions about the assumptions market participants would use in pricing the asset or liability.

At December 31, 2023, the District had the following investments measured at fair value on a recurring basis:

		Fair Value Measurement Using		
Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Notes	$ 42,246,828	$ 42,246,828	$ -	$ -
Government Sponsored Enterprises	25,553,546	-	25,553,546	-
Municipal Bonds	4,152,659	-	4,152,659	-
Corporate Bonds	6,262,672	-	6,262,672	-
Total	$ 78,215,705	$ 42,246,828	$ 35,968,877	$ -

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

All investments are subject to the following risks:

Interest Rate Risk
Interest rate risk is the risk that the District may face should interest rate variances affect the value of investments. As a means of limiting its exposure to fair value losses caused by a rise in interest rates, the District's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to two years. The portfolio weighted average maturity as of December 31, 2023 was 1.82 years.

The following schedule presents the investments and related maturities as of December 31, 2023:

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less than 1	1 to 5
U.S. Treasury Notes	$ 42,246,828	$ 26,990,488	$ 15,256,340
Government Sponsored Enterprises	25,553,546	2,473,206	23,080,340
Municipal Bonds	4,152,659	-	4,152,659
Corporate Bonds	6,262,672	-	6,262,672
Total	$ 78,215,705	$ 29,463,694	$ 48,752,011

Credit Risk
Credit risk is the chance that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy applies the prudent person standard; investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. All of the District's investments are held in organizations with a Moody's rating of Aaa, excluding investments with the Washington State Local Government Investment Pool which is unrated.

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's Investment Policy requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by the District, an independent third-party financial institution, or the District's designated depository. DVP means that cash payments for securities are made at the same time as, or after, the delivery of the security. All of the District's securities at year end were held in safekeeping by a third-party custodian and are not exposed to custodial credit risk.

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The District's policy for concentration of credit risk is as follows:

Issuer Type	Percent of Total Portfolio Maximum	Per Issuer Constraints Maximum
U.S. Treasury Obligations	100%	None
U.S. Agency Primary Securities	100%	35%
U.S. Agency Secondary Securities	10%	5%
Supranational Agency Notes	10%	5%
Municipal Bonds	30%	5%
Corporate Notes	25% *	3% AA- or 2% A-
Commercial Paper	25% *	3% AA- or 2% A-
Certificates of Deposit	20%	10%
Bank Time Deposits/Savings	20%	10%
Banker's Acceptance	20%	5%
Local Government Investment Pool	100%	None

* Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

Investments in any one issuer that represent 5% or more of total investments are as follows:

Federal Home Loan Bank	$ 11,015,822
Federal Farm Credit Bank	13,358,703

NOTE 3: RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets at December 31, 2023 are as follows:

	Cash Equivalents	Assessment Receivable	PERS 2/3	Total
Current Restricted Assets:				
Revenue Bond Fund	$ -	$ 23,740	$ -	$ 23,740
Unspent Bond Proceeds	1,372,750	-	-	1,372,750
	1,372,750	23,740	-	1,396,490
Noncurrent Restricted Assets:				
Net Pension Asset	-	-	3,914,939	3,914,939
Total	$ 1,372,750	$ 23,740	$ 3,914,939	$ 5,311,429

Terms of the revenue bond issues require the District to establish and maintain principal and interest and reserve accounts. The principal and interest account accumulates funds for payment of bonds; principal and interest, and the reserve account is to provide security for bond holders. Per bond resolutions, ULID assessments are dedicated to the payment of debt service. The reserve account is to provide security for bond holders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service or 10% of the proceeds of the bonds. The required reserve at December 31, 2023 is $-0- due to the District exercising a springing amendment to release the required reserve.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 was as follows:

	Balance - Beginning of Year *	Increase	Decrease	Balance - End of Year
Capital Assets Not Being Depreciated:				
Land	$ 5,953,488	$ 901,978	$ (493)	$ 6,854,973
Construction in Progress	15,470,342	19,449,673	(22,930,002)	11,990,013
Development in Progress	123,896	199,502	(1,295)	322,103
Total	21,547,726	20,551,153	(22,931,790)	19,167,089
Capital Assets Being Depreciated:				
Plant	191,973,670	511,790	(505,804)	191,979,656
Distribution and Collection Systems	558,788,669	49,975,548	(521,182)	608,243,035
Machinery and Equipment	33,443,110	1,633,239	(301,298)	34,775,051
Total	784,205,449	52,120,577	(1,328,284)	834,997,742
Accumulated Depreciation:				
Plant	(78,635,674)	(7,976,715)	61,474	(86,550,915)
Distribution and Collection Systems	(135,408,795)	(9,982,655)	269,656	(145,121,794)
Machinery and Equipment	(19,269,137)	(2,167,875)	301,298	(21,135,714)
Total	(233,313,606)	(20,127,245)	632,428	(252,808,423)
Depreciable Assets, Net	550,891,843	31,993,332	(695,856)	582,189,319
Lease Assets, Net (See Note 6 for Detail)	1,787,713	-	(75,300)	1,712,413
Subscription Assets, Net (See Note 7 for Detail)	81,381	162,351	(63,262)	180,470
Net Capital Assets	$ 574,308,663	$ 52,706,836	$ (23,766,208)	$ 603,249,291

* Beginning balances are adjusted due to the implementation of GASB Statement No. 96, *SBITAs*.

NOTE 5: SIGNIFICANT CONSTRUCTION COMMITMENTS

The District is obligated under various contracts for construction in progress in the combined amount of $37,019,684 of which $17,014,017 has been expended as of December 31, 2023.

As of December 31, 2023, the District had the following significant construction projects in progress:

Project Name	Expended to Date	Remaining Commitment
Property Demolition	$ 805,845	$ 287,059
Asphalt Patch Repairs	797,072	415,210
On-call Potholing	14,187	180,813
PPWWTF Improvements	776,813	9,511,642
Sewer Relining	1,109,409	4,705,160
Snohomish County Culvert Replacement - 23325 Locust Way	167,789	125,021
60th Ave W Sewer and Water Relocation	174,059	611,716
340 Pressure Zone Extension (V-3)	598,596	835,740
35th Ave and 180th Capacity Upgrade	2,687,325	755,026
164th St. Transmission Main Relocation	9,752,714	749,021
SR 96 Water and Sewer Main Relocation	122,240	93,467
Sno Co Locust Way-Logan Rd Intersection Improvements	7,700	1,524,416
Snohomish County Overlay Program	268	28,916
Brier Old Poplar/228th Water Relocation	-	182,460
	$ 17,014,017	$ 20,005,667

NOTE 6: LEASES

The District as a Lessee

The District is a lessee for long-term, noncancellable leases for land and equipment. In accordance with GASB Statement No. 87, *Leases*, the District recognizes right-to-use assets and lease liabilities based on the present value of payments expected over the course of the lease term (including extension options that the District is reasonably certain would be exercised).

The District uses an estimated incremental borrowing rate (IBR), the interest rate that would be charged for borrowing, to calculate the present value of lease payments. The District analyzes the impact the IBR method has on Net Position in addition to the comparison to other acceptable methods such as the implicit rate.

The following is a summary of the District's right-to-use lease asset activity for the year ended December 31, 2023:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Land	$ 1,762,491	$ -	$ -	$ 1,762,491
Equipment	97,152	-	-	97,152
Total Right-to-Use Lease Assets	1,859,643	-	-	1,859,643
Accumulated Amortization:				
Land	(53,274)	(22,025)	-	(75,299)
Equipment	(18,656)	(53,275)	-	(71,931)
Total Accumulated Amortization	(71,930)	(75,300)	-	(147,230)
Lease Assets, Net	$ 1,787,713	$ (75,300)	$ -	$ 1,712,413

NOTE 6: LEASES (CONTINUED)

At December 31, 2023, future annual lease principal and interest payments are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	$ 53,438	$ 53,462	$ 106,900
2025	52,328	52,183	104,511
2026	50,080	50,902	100,982
2027	39,502	49,685	89,187
2028	37,194	48,522	85,716
2029 - 2033	204,516	224,064	428,580
2034 - 2038	239,234	189,346	428,580
2039 - 2043	279,845	148,735	428,580
2044 - 2048	327,350	101,230	428,580
2049 - 2053	382,920	45,660	428,580
2054 - 2055	91,179	1,679	92,858
	$ 1,757,586	$ 965,468	$ 2,723,054

The District as a Lessor

The District leases cell towers and space in buildings not currently needed for principal operations, which is classified as nonoperating revenue. In accordance with the new standard, the District records lease receivables and deferred inflows of resources based on the present value of receipts expected over the course of the lease term (including extension options that the District is reasonably certain would be exercised). The District uses the estimated IBR rate for computing the present value of expected receipts.

For the year ended December 31, 2023, lease receivable activity are as follows:

Lease Receivable, Beginning of Year	$ 616,484
Additions	-
Deductions	(308,885)
Lease Receivable, End of Year	$ 307,599

NOTE 6: LEASES (CONTINUED)

The District's schedule of future receipts included in the measurement of lease receivables is as follows:

Year Ending December 31,	Principal	Interest	Total
2024	$ 112,212	$ 5,503	$ 117,715
2025	116,348	2,955	119,303
2026	79,039	645	79,684
	$ 307,599	$ 9,103	$ 316,702

The District monitors changes to any agreements (including those excluded from the Standard) including amendments to account for lease modifications or terminations that would require remeasurement of either lease receivables or liabilities. While the Standard focuses on noncancellable leases that have more than 12 months remaining, the District continues to maintain records of short-term or cancellable leases in case of situations that require remeasurement of terms.

NOTE 7: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

Subscription-Based Information Technology Arrangements

The District has entered into subscription based-information technology arrangements (SBITAs) for GIS utility enterprise software providing users access to geospatial data analysis tools and mapping District assets. Microsoft 365 subscriptions offer a comprehensive suite of productivity tools, including Office applications, cloud services, and collaboration solutions, with regular updates and technical support bundled into a single subscription package. The SBITA arrangements expire at various dates through 2025 and provide for renewal options.

As of December 31, 2023, SBITA assets and the related accumulated amortization totaled $243,732 and $63,262, respectively.

NOTE 7: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (CONTINUED)

The following is a summary of the District's right-to-use subscription asset activity for the year ended December 31, 2023:

	Balance - Beginning of Year *	Increase	Decrease	Balance - End of Year
Right-to-Use Subscription Assets	$ 81,381	$ 162,351	$ -	$ 243,732
Accumulated Amortization	-	(63,262)	-	(63,262)
Subscription Assets, Net	$ 81,381	$ 99,089	$ -	$ 180,470

* Beginning balances are adjusted due to the implementation of GASB Statement No. 96, *SBITAs*.

The future subscription payments under SBITAs are as follows:

Year Ending December 31,	Principal	Interest	Total
2024	$ 52,342	$ 4,358	$ 56,700
2025	54,676	2,024	56,700
	$ 107,018	$ 6,382	$ 113,400

NOTE 7: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (CONTINUED)

Some SBITA agreements require variable payments based on future performance of the government, usage of the underlying IT assets, or number of user seats and are not included in the measurement of the SBITA liability. Those variable payments are recognized as outflows of resources in the periods in which the obligation for those payments is incurred. During the year ended December 31, 2023, the District made variable payments as required by SBITA agreements totaling $136,714.

For the year ended December 31, 2023, commitments under SBITA agreements prior to the commencement of the SBITA term were $322,103. These outflows were recorded as prepayments in Development in Progress.

NOTE 8: LONG-TERM DEBT

Long-term debt outstanding at December 31, 2023 consisted of revenue and refunding bonds and direct borrowings as follows:

Description	
Revenue and Refunding Bonds:	
2020 Revenue and Refunding Bonds - Series A $51,060,000 issued November 12, 2020 for construction and refunding, due serially through the year 2039, with interest payable semi-annually at 2.00 to 5.00 annual percentage rate.	40,010,000
2020 Refunding Bonds - Series B $23,140,000 issued November 12, 2020 for refunding, due serially through the year 2043, with interest payable semi-annually at 1.00 to 2.85 annual percentage rate.	22,370,000
Total Revenue and Refunding Bonds	62,380,000

NOTE 8: LONG-TERM DEBT (CONTINUED)

Description		
Direct Borrowings:		
All issued for utility construction and secured by the revenue of the system.		
Public Works Trust Fund Loans		
05-691-PRE-108 Wastewater Facility Upgrade $1,000,000 loan: Payable $52,632 annually through the year 2025, plus interest at 0.5 annual percentage rate.	$	105,263
05-691-PRE-126 Wastewater Facility Upgrade $1,000,000 loan: Payable $53,363 annually through the year 2025, plus interest at 0.5 annual percentage rate.		106,725
06-962-001 Wastewater Facility Upgrade $7,000,000 loan: Payable $382,109 annually through the year 2026, plus interest at 0.5 annual percentage rate.		1,146,327
Drinking Water State Revolving Fund Loans		
L0900006 Wastewater Facility Upgrade $9,308,953 loan: Payable $614,289 semi-annually through February 2031, including interest at 2.7 annual percentage rate.		4,143,044
DM-12-952-098 Water Pump Station & High Tank Upgrade $2,663,943 loan: Payable $134,027 annually through the year 2034, including interest at 1.5 annual percentage rate.		1,474,298
DM-13-952-125 660/520/340 Water Pressure Zones $5,858,044 loan: Payable $308,318 annually through the year 2037, plus interest at 1.5 annual percentage rate.		4,316,453
		11,292,110
Total Long-Term Debt		73,672,110
Less: Current Maturities		(6,465,650)
Add: Unamortized Bond (Discounts) Premiums		6,214,040
Total	$	73,420,500

NOTE 8: LONG-TERM DEBT (CONTINUED)

Long-term debt service requirements to maturity are as follows:

	Revenue and Refunding Bonds		Notes from Direct Borrowings		
Year Ending December 31,	Principal	Interest	Principal	Interest	Total
2024	$ 5,030,000	$ 2,216,655	$ 1,435,650	$ 202,740	$ 8,885,045
2025	5,240,000	2,002,555	1,449,460	179,854	8,871,869
2026	5,455,000	1,778,355	1,357,654	156,590	8,747,599
2027	5,685,000	1,543,805	990,121	133,468	8,352,394
2028	5,940,000	1,288,505	1,005,096	111,859	8,345,460
2029-2033	14,895,000	3,569,375	3,686,829	262,694	22,413,898
2034-2038	12,205,000	1,876,575	1,367,300	48,257	15,497,132
2039-2043	7,930,000	587,598	-	-	8,517,598
Total	$ 62,380,000	$ 14,863,423	$ 11,292,110	$ 1,095,462	$ 89,630,995

All bond debt is secured by the District revenues. See Note 3 for restricted totals for debt service as of December 31, 2023. There are several limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

Arbitrage

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond proceeds, in excess of their yield, to the federal government. Because positive arbitrage can be offset against negative arbitrage, the rebated amount fluctuates each year and may or may not be owing at the payment intervals. The District has no arbitrage liability at this time.

NOTE 9: CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2023 were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
Direct Borrowings:					
Public Works Trust Fund Loans	$ 1,846,419	$ -	$ (488,104)	$ 1,358,315	$ 488,103
State Revolving Fund Loans	10,867,898	-	(934,103)	9,933,795	947,547
Revenue and Refunding Bonds	67,180,000	-	(4,800,000)	62,380,000	5,030,000
Bond Premium	7,365,491	-	(1,151,451)	6,214,040	-
Compensated Absences	1,808,861	1,897,956	(1,724,036)	1,982,781	1,485,734
Lease Liability	1,810,860	-	(53,274)	1,757,586	53,438
Subscription Liability	81,381	162,352	(136,715)	107,018	52,342
Net Pension Liability PERS 1	2,176,595		(454,000)	1,722,595	-
	$ 93,137,505	$ 2,060,308	$ (9,741,683)	$ 85,456,130	$ 8,057,164

NOTE 10: REFUNDED BONDS

On November 12, 2020, the District issued $74,200,000 of Water and Sewer Revenue and Revenue Refunding Bonds, Series 2020A ($51,060,000) and Series 2020B ($23,140,000). Of the $74,200,000 issued, $51,060,000 of the bonds with interest rates of 2.00% to 5.00% were used to provide a current refunding for $44,605,000 of outstanding 2010 Series B Bonds interest rates of 4.60 to 5.55%. The net proceeds of refunding bonds and District payments to escrow, totaling $45,620,989 including $1,015,989 representing accrued interest to the refunding date, were used to purchase U.S. government securities and to provide the beginning escrow balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds in this fund at December 31, 2023 is $-0-.

Of the $74,200,000 issued, $23,140,000 of the bonds with interest rates of 1.00% to 2.85% were used to advance refund $19,940,000 of outstanding 2013 Water and Sewer Revenue Bonds with interest rates of 3.00% to 4.625%. The net proceeds of refunding bonds and District payments to escrow, totaling $22,875,291 including $391,514 representing accrued interest to the refunding date, were used to purchase U.S. government securities and to provide the beginning escrow balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds in this fund at December 31, 2023 is $19,940,000.

NOTE 10: REFUNDED BONDS (CONTINUED)

Although the advance refunding resulted in an accounting loss of $1,878,466 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by $11,001,310 through December 1, 2043 and obtained an economic gain (difference between the present values of the old and new debt service payments) of $7,816,130 from both refunds.

NOTE 11: PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2023:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	$ 1,722,595
Pension Assets	$(3,914,939)
Deferred Outflows of Resources	$ 3,361,734
Deferred Inflows of Resources	$ 2,086,150
Pension Expense (Benefit)	$ (502,651)

State Sponsored Pension Plans

Substantially all of 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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

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

NOTE 11: 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 2% 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 5 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 nonduty 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 5 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%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.20%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

NOTE 11: PENSION PLAN (CONTINUED)
Public Employees Retirement System (PERS) (Continued)

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – June 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**
July – August 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	**9.39%**	**6.00%**
September – December 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	**9.53%**	**6.00%**

NOTE 11: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 5 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 3% 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 5% 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 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.20%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

NOTE 11: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2023:		
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%**
July – August 2023:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**9.39%**	**6.36%**
September– December 2023:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Employee PERS Plan 3		Varies
Total	**9.53%**	**6.36%**

The District's actual PERS plan contributions were $498,967 to PERS Plan 1 and $916,054 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

The total pension liability/(asset) (TPL/A) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

NOTE 11: PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities (assets) were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increases.
- **Investment rate of return:** 7.00%

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

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR). There was also the following assumption change:

- OSA made adjustments to TRS Plan 1 assets, LEOFF Plan 1/2 assets, and LEOFF participant data to reflect certain material changes occurring after the June 30, 2022, measurement date.

Discount Rate

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

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

NOTE 11: 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% 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's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	$ 2,406,596	$ 1,722,595	$ 1,125,624
PERS 2/3	4,257,965	(3,914,939)	(10,629,497)

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.

NOTE 11: PENSION PLAN (CONTINUED)

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2023, the District reported its proportionate share of the net pension liability (asset) for its proportionate share of the net pension liabilities/(assets) as follows (measured as of June 30, 2023):

	Liability (Asset)
PERS 1	$ 1,722,595
PERS 2/3	$(3,914,939)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.078172%	0.075462%	0.002710%
PERS 2/3	0.100264	0.095517	0.004747

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023, 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*.

Pension Expense (Benefit)

For the year ended December 31, 2023, the District recognized pension expense (benefit) as follows:

	Pension Expense (Benefit)
PERS 1	$ (106,186)
PERS 2/3	(396,465)
Total	$ (502,651)

NOTE 11: PENSION PLAN (CONTINUED)

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ -	$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	(194,316)
Changes of Assumptions	-	-
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	-	-
Contributions Subsequent to the Measurement Date	231,122	-
Total	$ 231,122	$ (194,316)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 797,469	$ (43,742)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	(1,475,386)
Changes of Assumptions	1,643,627	(358,246)
Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	207,670	(14,460)
Contributions Subsequent to the Measurement Date	481,846	-
Total	$3,130,612	$ (1,891,834)
Total All Plans	$3,361,734	$ (2,086,150)

NOTE 11: PENSION PLAN (CONTINUED)

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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 or an addition to the net pension asset 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 Plan 1	PERS Plan 2/3
2024	$ (132,204)	$ (656,220)
2025	(166,263)	(811,170)
2026	102,515	1,252,059
2027	1,636	470,820
2028	-	463,306
Thereafter	-	38,137
Total	$ (194,316)	$ (756,932)

NOTE 12: DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan's assets are with Great-West Life & Annuity Insurance Company and International City Management Association (ICMA) Retirement Trust. Great-West is no longer available to new employees after January 1, 2014. ICMA is available to all employees and 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. Effective January 1, 2022, the District will match 100% of eligible employee deferrals up to 4.00% of the participating employees' salaries. Employee deferrals totaled $998,732 in 2023. District matching contributions totaled $493,703 in 2023.

NOTE 13: RISK MANAGEMENT

Unemployment

The District is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the District. Below is an analysis of claims activity for the two-year period ended December 31, 2023:

	2022	2023
Liability - Beginning of Year	$ -	$ 4,959
Claims Incurred	5,637	14,566
Claim Payments	(678)	(15,449)
Liability - End of Year	$ 4,959	$ 4,076

Water and Sewer Risk Management Pool

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

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

NOTE 13: RISK MANAGEMENT (CONTINUED)

Water and Sewer Risk Management Pool

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$25,000 and See (C) below	$25,000	$275,000,000
Flood	See (A) below	See (A) below	$20,000,000
Earthquake	See (B) below	See (B) below	$100,000,000 ($75,000,000 shared by all members, $25,000,000 dedicated to Alderwood)
Terrorism	$25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$25,000	$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	$25,000	$500,000	$10,000,000
Auto Liability	$25,000	Same as above	$10,000,000
Public Officials Errors and Omissions	$25,000	Same as above	$10,000,000
Employment Practices	$25,000	Same as above	$10,000,000
Other:			
Cyber Liability	$50,000	N/A	$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	$25,000	$25,000	$2,000,000
Identity Fraud	$0	$0	$25,000

A. $100,000 member deductibles, per occurrence, in Flood Zones except Zones A&V; $250,000 member deductible per occurrence, in Flood Zones A&V.

B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.

C. Member deductible for Cyber liability is $50,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight hour waiting period.

NOTE 13: RISK MANAGEMENT (CONTINUED)

Water and Sewer Risk Management Pool

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2023, written notice must be in possession of the Pool by April 30, 2023). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

In the past three years (2023, 2022, and 2021), there have been no claims, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

NOTE 14: OTHER PARTIES

Clearview Water Supply Agency

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). The purpose of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. The District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

CWSA purchases all of its water from the District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses.

In 2018, the Board of Commissioners of the (CWSA) adopted a resolution clarifying that CWSA is not a joint venture under Governmental Accounting Standards Board (GASB) Statement No. 14 but is a jointly governed organization under Chapter 39.34 RCW. The CWSA is comprised of three Special Purpose Districts: Alderwood Water & Wastewater District, Cross Valley Water District, and Silver Lake Water & Sewer District. The CWSA Board's action was the result of discussions between representatives of the Washington State Auditor's Office (SAO) and the representatives for the three member districts of CWSA as to how to clarify the nature of CWSA's relationship with its three member districts.

Annual financial statements are available by contacting Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

Wholesale Customers

The District has interlocal agreements to sell wholesale water to the cities of Edmonds, Lynnwood, Mountlake Terrace, the Mukilteo Water & Wastewater District, and the Silver Lake Water & Sewer District. A portion of each payment from the wholesale customers is set aside by the District in a wholesale rate stabilization fund that can be used to mitigate future rate increases. This liability is currently at $797,775.

NOTE 15: SUBSEQUENT EVENTS

On January 1, 2024, the District became a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP).

On March 26, 2024, the District entered into a Sale and Purchase Agreement with a third party to acquire a building and land for cash consideration of $8,140,000 payable 150 days after the feasibility contingency date or no later than September 1, 2024.

ALDERWOOD WATER & WASTEWATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
JUNE 30 (MEASUREMENT DATE)
LAST TEN FISCAL YEARS*

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.075462 %	$ 1,722,595	$ 13,297,311	12.95 %	80.16 %
2022	0.078172	2,176,595	12,651,991	17.20	76.56
2021	0.081988	1,001,265	12,473,227	8.03	88.74
2020	0.084138	2,970,526	12,350,697	24.05	68.64
2019	0.084818	3,261,553	11,503,864	28.35	67.12
2018	0.082100	3,666,614	10,611,754	34.55	63.22
2017	0.085174	4,041,573	9,983,247	40.48	61.24
2016	0.081201	4,360,876	9,383,256	46.48	57.03
2015	0.083423	4,363,799	9,264,779	47.10	59.10

Notes to Schedule:

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

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.095517 %	$ (3,914,939)	$ 13,204,258	(29.65)%	107.02 %
2022	0.100264	(3,718,572)	12,570,671	(29.58)	106.73
2021	0.103658	(10,326,005)	12,397,999	(83.29)	102.29
2020	0.103797	1,327,504	12,085,071	10.98	97.22
2019	0.103376	1,004,133	11,235,764	8.94	97.77
2018	0.100679	1,719,004	10,404,020	16.52	95.77
2017	0.102567	3,563,713	9,696,517	36.75	90.97
2016	0.097145	4,891,174	9,103,079	53.73	85.82
2015	0.101096	3,612,218	8,991,768	40.17	89.20

Notes to Schedule:

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

ALDERWOOD WATER & WASTEWATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST TEN FISCAL YEARS*

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2023	$ 498,967	$ (498,967)	$ -	$ 14,476,626	3.45 %
2022	488,122	(488,122)	-	12,864,691	3.79
2021	543,085	(543,085)	-	12,423,857	4.37
2020	641,303	(641,303)	-	12,545,930	5.11
2019	618,986	(618,986)	-	12,074,280	5.13
2018	571,908	(571,908)	-	10,945,922	5.22
2017	519,497	(519,497)	-	10,278,440	5.05
2016	475,623	(475,623)	-	9,604,515	4.95
2015	423,748	(423,748)	-	9,366,709	4.52

Notes to Schedule:

1. Plan 1 contributions in 2020 include $26,790 for excess compensation.

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

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2023	$ 916,054	$ (916,054)	$ -	$ 14,403,191	6.36 %
2022	812,715	(812,715)	-	12,778,321	6.36
2021	887,578	(887,578)	-	12,346,258	7.19
2020	980,505	(980,505)	-	12,380,118	7.92
2019	910,158	(910,158)	-	11,800,249	7.71
2018	802,909	(802,909)	-	10,706,558	7.50
2017	686,573	(686,573)	-	10,035,870	6.84
2016	580,842	(580,842)	-	9,323,549	6.23
2015	509,457	(509,457)	-	9,089,093	5.61

Notes to Schedule:

* 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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