



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Terrace Heights Sewer District

For the period January 1, 2022 through December 31, 2023

*Published December 23, 2024*

Report No. 1036211



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

December 23, 2024

Board of Commissioners  
Terrace Heights Sewer District  
Yakima, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Terrace Heights Sewer District January 1, 2022 through December 31, 2023

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2019 through December 31, 202	<b>Report Ref. No.:</b> 1033125	<b>Finding Ref. No.:</b> 2021-001
<b>Finding Caption:</b> The District's internal controls over preparing its financial statements were inadequate for ensuring accurate reporting.		
<b>Background:</b> Our audit found deficiencies in the District's internal controls over financial reporting that, when taken together, represent a material weakness. As a result, we found the District incorrectly reported outstanding debt and pensions on the schedule of liabilities, did not properly reconcile cash, revenues and expenditures to the general ledger and incorrectly classified revenues and expenses on the financial statements.		
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-around;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input checked="" type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> Not Corrected</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>		
<b>Corrective Action Taken:</b> <i>The District is continuing to improve our education and understanding of our reporting requirements and the BARS system.</i> <i>Through the support and training provided by WSAO, MRSC, DRS and WFOA we have increased our knowledge of reporting requirements.</i> <ul style="list-style-type: none"> <li><i>The District hired additional support staff to assist in the review of financial reporting.</i></li> <li><i>Staff attended continuing education to review the BARS system as well as individual topics such as SBITAS, Utility Billing, &amp; Bond/EMMA Reporting.</i></li> <li><i>The District is in the process of upgrading our software to assist with proper classification and reconciliation of the general ledger.</i></li> <li><i>We have requested that our Board of Commissioners allow us to stay on a 2-year audit schedule to make sure our changes are consistently improving.</i></li> </ul> <i>We are committed to continuing this improvement process and look forward to working with the auditor's office to fine tune our reporting and understanding.</i>		

## INDEPENDENT AUDITOR'S REPORT

### Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

#### **Terrace Heights Sewer District January 1, 2022 through December 31, 2023**

Board of Commissioners  
Terrace Heights Sewer District  
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Terrace Heights Sewer District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 17, 2024.

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

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

We noted certain other matters that we have reported to the management of the District in a separate letter dated December 17, 2024.

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 17, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Terrace Heights Sewer District January 1, 2022 through December 31, 2023**

Board of Commissioners  
Terrace Heights Sewer District  
Yakima, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Terrace Heights Sewer District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the financial section of our report.

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

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the Terrace Heights Sewer District, and its changes in cash and investments, for the years ended December 31, 2023 and 2022, on the basis of accounting described in Note 1.

### **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion, they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Terrace Heights Sewer District, as of December 31, 2023 and 2022, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.



## **Basis for Unmodified and Adverse Opinions**

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

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

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

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS Manual described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

## Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other

records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2024 on our consideration of the District's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Pat McCarthy, State Auditor

Olympia, WA

December 17, 2024

## **FINANCIAL SECTION**

### **Terrace Heights Sewer District January 1, 2022 through December 31, 2023**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2023

Fund Resources and Uses Arising from Cash Transactions – 2022

Notes to Financial Statements – 2023

Notes to Financial Statements – 2022

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2023

Schedule of Liabilities – 2022

**Terrace Heights Sewer District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2023**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	3,709,942
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	7,000
340	Charges for Goods and Services	2,582,551
350	Fines and Penalties	-
360	Miscellaneous Revenues	59,194
Total Revenues:		<u>2,648,745</u>

**Expenditures**

510	General Government	-
520	Public Safety	-
530	Utilities	1,594,339
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,594,339</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,054,406</u>

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	1,392,705
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	2,797
Total Other Increases in Fund Resources:		<u>1,395,502</u>

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	1,801,718
591-593, 599	Debt Service	660,180
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>2,461,898</u>

**Increase (Decrease) in Cash and Investments: (11,990)**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	1,064,125
50841	Committed	-
50851	Assigned	2,633,826
50891	Unassigned	-
Total Ending Cash and Investments		<u>3,697,951</u>

*The accompanying notes are an integral part of this statement.*

**Terrace Heights Sewer District**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2022**

**Beginning Cash and Investments**

308	Beginning Cash and Investments	2,844,208
388 / 588	Net Adjustments	-

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	148,786
340	Charges for Goods and Services	2,534,460
350	Fines and Penalties	-
360	Miscellaneous Revenues	27,813
Total Revenues:		<u>2,711,059</u>

**Expenditures**

510	General Government	-
520	Public Safety	-
530	Utilities	1,549,098
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>1,549,098</u>
Excess (Deficiency) Revenues over Expenditures:		<u>1,161,961</u>

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	542,250
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	10,098
Total Other Increases in Fund Resources:		<u>552,348</u>

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	256,972
591-593, 599	Debt Service	591,603
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>848,575</u>

**Increase (Decrease) in Cash and Investments: 865,734**

**Ending Cash and Investments**

50821	Nonspendable	-
50831	Restricted	1,050,822
50841	Committed	-
50851	Assigned	2,659,120
50891	Unassigned	-
Total Ending Cash and Investments		<u>3,709,942</u>

*The accompanying notes are an integral part of this statement.*

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

**Note 1 – Summary of Significant Accounting Policies**

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

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

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

A. Fund Accounting

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

*PROPRIETARY FUND TYPE:*

*Enterprise Funds-*

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

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

**B. Basis of Accounting and Measurement Focus**

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

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

**C. Cash and Investments**

Terrace Heights Sewer District's deposits with Banner Bank are insured by FDIC. The district's investments are held by Yakima County, who acts as our Treasurer. Total investments and deposits at the end of December 31, 2023, were \$3,689,498.35. This includes \$2,796.81 received from our participation in the WASWD retro rating program with the Department of Labor & Industries. It is the district's policy to invest all temporary cash surpluses. For more details see Note 3, Investments.

**D. Capital Assets**

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

**E. Compensated Absences**

A maximum of 40 hours of vacation hours and 192 sick hours may be carried over from one year to the next. Any accrued but unused time in excess of those hours is automatically forfeited at the end of the calendar year. Accumulated vacation and sick hours are not routinely paid out at termination of employment and any expense derived from the payment of accrued vacation or sick time is recognized as an expenditure when it is paid, therefore the district does not tabulate compensated absences from year to year.

**F. Long Term Debt**

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

**G. Reserved portion of Ending Cash and Investments**

In accordance with bond resolutions (and related agreements), separate restricted funds are required to be established by Terrace Heights Sewer District Board of Commissioners. The assets held in these funds are restricted or have been reserved for debt service. Restricted funds totaled \$1,064,125.00 as of December 31, 2023.

**Note 2. Budget Compliance**

There have been no material violations of finance related or contractual provisions.



**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

The district is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the district. The district has not reported budgetary comparison schedules herein.

**Note 3. Deposits and Investments**

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

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

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

The District is a voluntary participant in a Local Government Investment Pool, an external investment pool operated by Yakima County Treasurer Investment Pool (TIP) as a locally managed diversified investment option that takes advantage of economies of scale, simplify administration, and achieve a potentially higher yield than other investment options. Oversight of TIP is provided by the County Finance Committee and is in accordance with all State statutes governing the investment of public funds. The participants' shares in the Pool are purchased and redeemed at face value. All participants manage their own cash flow needs and direct the Treasurer by written request to deposit or withdraw monies from its funds for investment purposes.

The Yakima County Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Yakima County Treasurer, 128 N 2<sup>nd</sup> Street, Yakima, Washington 98901, or online at <https://www.yakimacounty.us/1468/Annual-Reports>.

<b>Type of Deposit or Investment</b>	<b>Terrace Heights Sewer District's own Deposits/Investments</b>	<b>Investments held by Yakima County Treasurer for the district</b>	<b>Total</b>
Construction-605011		\$48,746.37	\$48,746.37
Maintenance-605012		\$96,998.41	\$96,998.41
Debt Service Reserve-605013		\$31,183.33	\$31,183.33
THSD Capital Improvement 6050135		\$140,999.97	\$140,999.97

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

Bond Redemption 605014		\$295,149.62	\$295,149.62
THSD Rate Stabilization 6050145		\$102,131.81	\$102,131.81
CIP- 605017		\$657,501.47	\$657,501.47
Bond Construction- 6050190		\$290.13	\$290.13
(TIP) Local Government Investment Pool		\$2,229,421.00	\$2,229,421.00
Banner Bank	\$87,076.24		\$87,076.24
<b>Total Ending Balance</b>			<b>\$3,689,498.35</b>

**Note 4. Long-Term Debt**

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2023.

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

Year	PC22-96103-050 06/01/2022-6/1/2041 Interest Rate 0.94% up to 7,000,000.00		PE18-96103-200 6/1/2020- 6/1/2039 Interest Rate 1.6900% 226,581.84		BOND Through 2033 Last Pmnt to be paid DEC 2032 7,915,038.06		PW-06-962-045 07/01/2018-6/1/2026 Interest Rate 0.50% 3,655,000		PW-05-691-PRE-102 07/01/2006- 7/1/2025 Interest Rate 0.50% 280,500		Total Long- Term Debt and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2024	95,476.00	15,846.83	11,925.36	3,224.62	210,000.00	159,412.50	192,902.78	2,893.54	14,763.16	147.63	706,592.42
2025	95,476.00	15,257.07	11,925.36	3,023.07	230,000.00	151,212.50	192,902.77	1,929.03	14,763.15	73.82	716,562.77
2026	95,475.99	14,359.59	11,925.35	2,821.54	435,000.00	142,012.50	192,902.78	964.51			895,462.26
2027	95,476.00	13,462.11	11,925.36	2,620.00	460,000.00	124,612.50					708,095.97
2028	95,475.99	12,564.64	11,925.35	2,418.47	475,000.00	106,212.50					703,596.95
2029-2033	477,379.98	49,361.09	59,626.81	9,069.24	2,105,000.00	224,827.50					2,925,264.62
2034-2038	477,379.97	26,924.23	59,626.81	4,030.78							567,961.79
2039-2042	286,428.02	5,384.84	11,925.36	201.54							303,939.76
Total	1,718,567.95	153,160.40	190,805.76	27,409.26	3,915,000.00	908,290.00	578,708.33	5,787.08	29,526.31	221.45	7,527,476.54

\*\*The amortization table for PC22-96103-050 was printed 7/2023 and reflects additional \$141,898.90 in drawdowns received after 7/2023.

\*\*The Bond payment of \$195,000.00 is due annually on January 1st. The principal balance shown reflects this payment.

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

**Note 5. Pension Plans**

Substantially all of Terrace Heights Sewer district's full-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan.

The DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

On June 30, 2023 (*the measurement date of the plans*), the district's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$14,515.00	0.002130%	\$48,622.00
PERS 2/3	\$24,181.00	.002750%	(\$112,714.00)
Total Net Pension Liability (Schedule 9)			\$48,622.00

**Note 6. Risk Management**

Terrace Heights Sewer District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 72 members. The Pool's fiscal year is November 1st through

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

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.

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
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$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	\$1,000 - \$25,000	\$25,000  Primary layer	\$700,000,000  Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
<b>Other:</b>			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000.00-\$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 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.

The District also participates in the Washington Association of Sewer and Water Districts Worker's Compensation Retrospective Rating Program. Premiums are based on prior experience of the program participants. As of December 31, 2023, the District received \$2,796.81 in recovery funds from this program for the prior year participation.

**Note 7. Subscription Based Information Technology Arrangements SBITA**

During the year ended December 31, 2023, Terrace Heights Sewer District adopted guidance for the presentation and disclosure of Subscription Based Information Technology Arrangements (SBITA), as required by the BARS manual. After reviewing our contracts for all subscription bases technology it was determined that they should be reported as expenses as the district does not have any long-term SBITAS.

**Note 8. Other Disclosures**

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2023**

*Roza Irrigation-*

The Terrace Heights Sewer District is a defendant in a state lawsuit filed by several plaintiffs arising from an alleged sewer leak into the Roza Main Canal that occurred in August 2018. The allegation is that Terrace Heights Sewer District failed to maintain the sewer pipe, resulting in the spill and alleged contamination of crops watered from the Canal. Terrace Heights Sewer District denies these claims. Alleged damages are more than \$5M. The case is still in the discovery stage, and it is not possible currently to provide an estimate of potential loss in the event of a negative outcome at trial.

*3-Party Agreement-City of Yakima, City of Union Gap, & Terrace Heights Sewer District*

The Terrace Heights Sewer District entered into an agreement with the City of Yakima in 1979 for wastewater treatment. As part of that agreement the City of Yakima will provide wastewater treatment to Terrace Heights Sewer District. THSD will pay 4 percent of the CIP/Repair & Replacement rate per million gallons. Treatment rates are based on the volume of wastewater per million gallons as well as sampling and testing conducted by City of Yakima and based on the treatment necessary. Of the 4% of cost allotted to the District, the City of Moxee is responsible for 35% of THSD portion.

*Moxee Wastewater Conveyance Agreement*

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

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

**Note 1 – Summary of Significant Accounting Policies**

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

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

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

**A. Fund Accounting**

Financial transactions of the District are reported as proprietary type funds. The primary fund type is enterprise funds derived from the revenues collected for sewer services. This fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

***PROPRIETARY FUND TYPE:***

***Enterprise Funds-***

These funds account for operations that provide goods or services to the public and are supported primarily through user charges. The District breaks these funds into several accounts for budgeting purposes.

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

**B. Basis of Accounting and Measurement Focus**

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

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

**C. Cash and Investments**

Terrace Heights Sewer District's deposits with Banner Bank are insured by FDIC. The district's investments are held by Yakima County, who acts as our Treasurer. Total investments and deposits at the end of December 31, 2022, were \$3,709,941.70. This includes \$10,097.72 received from our participation in the WASWD retro rating program with the Department of Labor & Industries. It is the district's policy to invest all temporary cash surpluses. For more details see Note 3, Investments.

**D. Capital Assets**

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

**E. Compensated Absences**

A maximum of 40 hours of vacation hours and 192 sick hours may be carried over from one year to the next. Any accrued but unused time in excess of those hours is automatically forfeited at the end of the calendar year. Accumulated vacation and sick hours are not routinely paid out at termination of employment and any expense derived from the payment of accrued vacation or sick time is recognized as an expenditure when it is paid, therefore the district does not tabulate compensated absences from year to year.

**F. Long Term Debt**

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

**G. Reserved portion of Ending Cash and Investments**

In accordance with bond resolutions (and related agreements), separate restricted funds are required to be established by Terrace Heights Sewer District Board of Commissioners. The assets held in these funds are restricted or have been reserved for debt service. Restricted funds totaled \$1,050,822.00 as of December 31, 2022.



**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

**Note 2. Budget Compliance**

There have been no material violations of finance related or contractual provisions.

The district is not legally required to adopt a budget, however, does so as a measure of monitoring revenues and controlling expenses. The Board of Commissioners adopts an annual budget and uses it as a financial plan for the district. The district has not reported budgetary comparison schedules herein.

**Note 3. Deposits and Investments**

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

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

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

The District is a voluntary participant in a Local Government Investment Pool, an external investment pool operated by Yakima County Treasurer Investment Pool (TIP) as a locally managed diversified investment option that takes advantage of economies of scale, simplify administration, and achieve a potentially higher yield than other investment options. Oversight of TIP is provided by the County Finance Committee and is in accordance with all State statutes governing the investment of public funds. The participants' shares in the Pool are purchased and redeemed at face value. All participants manage their own cash flow needs and direct the Treasurer by written request to deposit or withdraw monies from its funds for investment purposes.

The Yakima County Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Yakima County Treasurer, 128 N 2<sup>nd</sup> Street, Yakima, Washington 98901, or online at <https://www.yakimacounty.us/1468/Annual-Reports> .

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

Type of Deposit or Investment	Terrace Heights Sewer District's own Deposits/Investments	Investments held by Yakima County Treasurer for the district	Total
Construction-605011		\$62,692.21	\$62,692.21
Maintenance-605012		\$84,800.02	\$84,800.02
Debt Service Reserve-605013		\$15,926.83	\$15,926.83
Bond Redemption 605014		\$295,887.12	\$295,887.12
Building Construction-6050160		\$52,500.00	\$52,500.00
CIP-605017		\$379,811.42	\$379,811.42
Rate Stabilization-605019		\$160,110.69	\$160,110.69
(TIP) Local Government Investment Pool		\$2,479,420.00	\$2,479,420.00
Banner Bank	\$178,793.41		\$178,793.41
<b>Total Ending Balance</b>			<b>\$3,709,941.70</b>

**Note 4. Long-Term Debt**

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the district and summarizes the district's debt transactions for the year ended December 31, 2022.

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

Year	PC22-96103-050 06/01/2022-6/1/2041 Interest Rate 0.94% up to 7,000,000.00		PE18-96103-200 6/1/2020-6/1/2039 Interest Rate 1.6900% 226,581.84		BOND Through 2033 Last Pmnt to be paid DEC 2032 7,915,038.06		PW-06-962-045 07/01/2018-6/1/2026 Interest Rate 0.50% 3,655,000		PW-05-691-PRE-102 07/01/2006-7/1/2025 Interest Rate 0.50% 280,500		EL200425 11/16/2022- 1/23/2023 Interest Rate 2.000% 147,572.81		Total Long-Term Debt and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2023	66,814.61	5,531.25	11,925.36	3,426.16	195,000.00	167,412.50	192,902.77	3,858.06	14,763.15	221.45	138,650.00	11,878.41	812,383.72
2024	95,476.00	15,846.83	11,925.36	3,224.62	210,000.00	159,412.50	192,902.78	2,893.54	14,763.16	147.63			706,592.42
2025	95,476.00	15,257.07	11,925.36	3,023.07	230,000.00	151,212.50	192,902.77	1,929.03	14,763.15	73.82			716,562.77
2026	95,475.99	14,359.59	11,925.36	2,821.54	435,000.00	142,012.50	192,902.78	964.51					895,462.27
2027	95,476.00	13,462.11	11,925.35	2,620.00	460,000.00	124,612.50							708,095.96
2028-2032	477,379.97	53,848.46	59,626.80	10,076.94	2,580,000.00	331,040.00							3,511,972.17
2033-2037	477,379.98	31,411.60	59,626.80	8,061.55									576,479.93
2038-2042	381,904.01	8,974.74	23,850.73	604.62									415,334.10
Total	1,785,382.56	158,691.65	202,731.12	33,858.50	4,110,000.00	1,075,702.50	771,611.10	9,645.14	44,289.46	442.90	138,650.00	11,878.41	8,342,883.34

\*\*The amortization table for PC22-96103-050 was printed 7/2023 and reflects additional \$1,250,806.56 in drawdowns received by 7/2023.

\*\*The Bond payment of \$190,000.00 is due annually on January 1st. The principal balance shown reflects this payment.

\*\*An additional payment was made on EL200425 adjusting the payoff amount from the amortization table.

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

**Note 5. Pension Plans**

Substantially all of Terrace Heights Sewer district's full-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for each plan.

The DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

On June 30, 2022 (*the measurement date of the plans*), the district's proportionate share of the collective net pension liabilities (assets), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$12,245.00	0.001998%	\$55,632.00
PERS 2/3	\$20,876.00	.002592%	(\$96,391.00)
Total Net Pension Liability (Schedule 9)			\$55,632.00

**Note 6. Risk Management**

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

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

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.

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
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$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 <small>(\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood)</small>
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	Replacement Value Coverage
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
<b>Other:</b>			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000.00-\$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.			

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period

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

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

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who 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.

The District participates in the Washington Association of Sewer and Water Districts Worker's Compensation Retrospective Rating Program. Premiums are based on prior experience of the program participants. As of December 31, 2022, the District received \$10,097.72 in recovery funds from this program for the prior year participation.

#### **Note 7. Other Disclosures**

##### *Roza Irrigation-*

The Terrace Heights Sewer District is a defendant in a state lawsuit filed by several plaintiffs arising from an alleged sewer leak into the Roza Main Canal that occurred in August 2018. The allegation is that Terrace Heights Sewer District failed to maintain the sewer pipe, resulting in the spill and alleged contamination of crops watered from the Canal. Terrace Heights Sewer District denies these claims. Alleged damages are in excess of \$5M. The case is still in the discovery stage, and it is not possible at this time to provide an estimate of potential loss in the event of a negative outcome at trial.

##### *3-Party Agreement-City of Yakima, City of Union Gap, & Terrace Heights Sewer District*

The Terrace Heights Sewer District entered into an agreement with the City of Yakima in 1979 for wastewater treatment. As part of that agreement the City of Yakima will provide wastewater treatment to Terrace Heights Sewer District. THSD

**Terrace Height Sewer District-MCAG NO.2189**  
**Notes to the Financial Statements**  
**for the year ended December 31, 2022**

will pay 4 percent of the CIP/Repair & Replacement rate per million gallons. Treatment rates are based on the volume of wastewater per million gallons as well as sampling and testing conducted by City of Yakima and based on the treatment necessary. Of the 4% of cost allotted to the District, the City of Moxee is responsible for 35% of THSD portion.

*Moxee Wastewater Conveyance Agreement*

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

**Terrace Heights Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2023**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	G.O BONDS	1/1/2033	4,300,000	-	190,000	4,110,000
263.81	General Obligation Debt/Liabilities	6/1/2026	771,611	-	192,903	578,708
263.81	General Obligation Debt/Liabilities	12/31/2041	138,650	-	138,650	-
263.81		6/1/2025	44,290	-	14,763	29,527
263.81		6/1/2039	202,732	-	11,925	190,807
263.81		6/1/2041	534,576	1,392,705	66,815	1,860,466
<b>Total General Obligation Debt/Liabilities:</b>			<b>5,991,859</b>	<b>1,392,705</b>	<b>615,056</b>	<b>6,769,508</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Net Pension Liability	12/31/2021	55,632	-	7,010	48,622
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>55,632</b>	<b>-</b>	<b>7,010</b>	<b>48,622</b>
<b>Total Liabilities:</b>			<b>6,047,491</b>	<b>1,392,705</b>	<b>622,066</b>	<b>6,818,130</b>

**Terrace Heights Sewer District  
Schedule of Liabilities  
For the Year Ended December 31, 2022**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	G.O BONDS	1/1/2033	4,485,000	-	185,000	4,300,000
263.81	General Obligation Debt/Liabilities	6/1/2026	964,514	-	192,903	771,611
263.81	General Obligation Debt/Liabilities	6/1/2025	59,053	-	14,763	44,290
263.81	General Obligation Debt/Liabilities	6/1/2039	214,657	-	11,925	202,732
263.81	General Obligation Debt/Liabilities	12/31/2041	135,532	7,674	4,556	138,650
263.81	General Obligation Debt/Liabilities	6/1/2041	-	534,576	-	534,576
<b>Total General Obligation Debt/Liabilities:</b>			<b>5,858,756</b>	<b>542,250</b>	<b>409,147</b>	<b>5,991,859</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
264.30	Net Pension Liability	12/31/2021	24,608	31,024	-	55,632
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>24,608</b>	<b>31,024</b>	<b>-</b>	<b>55,632</b>
<b>Total Liabilities:</b>			<b>5,883,364</b>	<b>573,274</b>	<b>409,147</b>	<b>6,047,491</b>



## 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](http://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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