



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Alderwood Water and Wastewater District

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

*Published December 12, 2022*

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

December 12, 2022

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

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

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

#### **Alderwood Water and Wastewater District January 1, 2021 through December 31, 2021**

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2022.

### **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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## **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 5, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Alderwood Water and Wastewater District January 1, 2021 through December 31, 2021**

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2021, 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 table of contents 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 December 5, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

December 5, 2022

**Alderwood Water and Wastewater District  
January 1, 2021 through December 31, 2021**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2021

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2021

Statement of Revenues, Expenses and Changes in Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability (Asset) – PERS 1, PERS 2/3 –  
2021

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**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, 2021 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.

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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

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**

	<u>2021</u>	<u>2020</u>
Capital Assets	\$ 532,246,075	\$ 511,353,449
Other Assets	156,610,515	138,959,261
Total Assets	<u>688,856,590</u>	<u>650,312,710</u>
Deferred Outflows of Resources	<u>3,036,463</u>	<u>3,332,521</u>
Long-Term Liabilities	89,937,615	101,327,844
Other Liabilities	16,868,257	16,513,567
Total Liabilities	<u>106,805,872</u>	<u>117,841,411</u>
Deferred Inflows of Resources	<u>10,637,967</u>	<u>1,202,566</u>
Net Investment in Capital Assets	455,679,696	433,124,930
Restricted Amounts	15,622,157	5,442,475
Unrestricted Amounts	<u>103,147,361</u>	<u>96,033,849</u>
Total Net Position	<u>\$ 574,449,214</u>	<u>\$ 534,601,254</u>

**ANALYSIS OF THE STATEMENT OF NET POSITION**

- Other Assets increased \$17.7 million or 12.7% in 2021. A net pension asset for PERS Plan 2/3 totaling \$10.3 million was reported in 2021. PERS Plan 2/3 resulted in a net pension liability for 2020. Cash, Cash Equivalents, and Investments also increased during 2021 and can vary from year to year based on income from operations, expenses paid for operations and construction costs, and debt service payments. The increase is due to the excess of revenues over expenses before capital contributions, which was \$3.8 million. Receivables increased \$1.6 million primarily due to the timing of payments.
- Capital assets consist of land; construction in progress; plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The \$20.9 million increase in net capital assets is primarily due to assets contributed by developers through system extensions in the amount of \$29 million less retirements and depreciation.
- Change in long-term liabilities reflects decreases in pension liabilities primarily due to differences between projected and actual earnings on pension plan investments in the underlying plans, decrease in long-term portion of compensated absences, and principal payments on long-term debt.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

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

	<u>2021</u>	<u>2020</u>
Water Charges for Services	\$ 42,642,251	\$ 39,939,177
Wastewater Charges for Services	55,903,817	52,653,440
Other Charges for Services	1,051,000	1,030,931
Total Operating Revenues	<u>99,597,068</u>	<u>93,623,548</u>
Personnel Services	13,776,334	16,927,113
Supplies and Services	12,288,071	12,005,359
Purchased Water	16,947,507	16,250,620
Purchased Wastewater	30,648,796	29,527,155
Depreciation	18,402,651	16,667,409
Taxes	1,957,255	1,921,240
Total Operating Expenses	<u>94,020,614</u>	<u>93,298,896</u>
Operating Income	5,576,454	324,652
Nonoperating Revenues (Expenses):		
Investment Income	62,117	2,268,557
Interest on Assessments	3,922	1,814
Rental Income	360,058	248,558
Miscellaneous	57,545	337,671
Net Loss on Disposal of Assets	(345,875)	(4,977,489)
Interest and Amortization on Long-Term Debt	(1,953,459)	(3,285,567)
Bond Issuance Costs	-	(806,257)
Total Nonoperating Revenues (Expenses)	<u>(1,815,692)</u>	<u>(6,212,713)</u>
Income (Loss) Before Capital Contributions	3,760,762	(5,888,061)
Capital Contributions	<u>36,087,198</u>	<u>45,628,239</u>
Increase in Net Position	39,847,960	39,740,178
Net Position - Beginning of Year	534,601,254	497,478,508
Restatement - Prior Period Adjustment	-	(2,617,432)
Net position, January 1, as Restated	<u>534,601,254</u>	<u>494,861,076</u>
Net Position, December 31	<u><u>\$ 574,449,214</u></u>	<u><u>\$ 534,601,254</u></u>

Eight projects capitalized in construction in progress were identified as property of the City of Everett and five additional projects did not result in capital assets for the District. The cumulative impact of removing these projects from construction in progress at December 31, 2019 resulted in a \$2,617,432 reduction net position as of January 1, 2020.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

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

- Total operating revenue increased by 6.4% in 2021. This is due to rate increases and increased water consumption.
- There was a 0.8% increase in operating expenses attributable to increased rates in both purchased water and purchased wastewater treatment netted with a decrease in personnel services.
- There was a 74.6% decrease in nonoperating expenses mainly due to losses in 2020 on the early retirement of wastewater treatment equipment and bond issuance costs.
- Capital contributions are general facility charges (GFC) revenues and developer-contributed assets. These assets are donated to the District once the new development is complete and approved by the District. In 2021, contributed systems included \$29.2 million in depreciable assets such as water and wastewater mains.

**FINANCIAL HIGHLIGHTS**

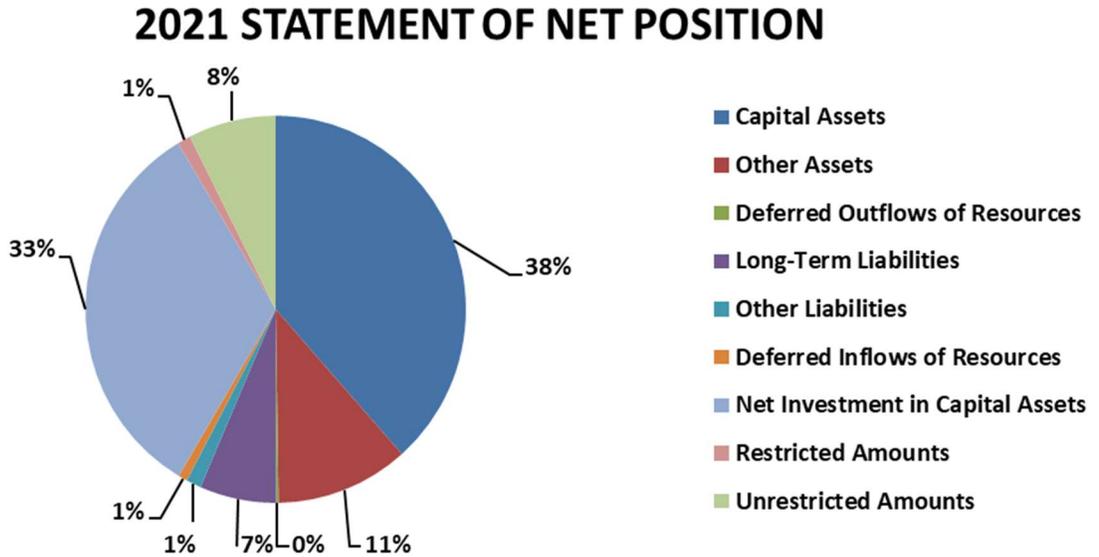
- For the year ending December 31, 2021, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$574.4 million. Of this amount, 18.0% or \$103.1 million is unrestricted net position and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets, \$455.7 million or 79.3%, restricted for debt service payments and reserves, \$5.3 million or 0.9%, and restricted for pensions, \$10.3 million or 1.8%.
- As of the end of 2021, the District's total net position increased by \$39.8 million or 7.5% from the prior year.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**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.

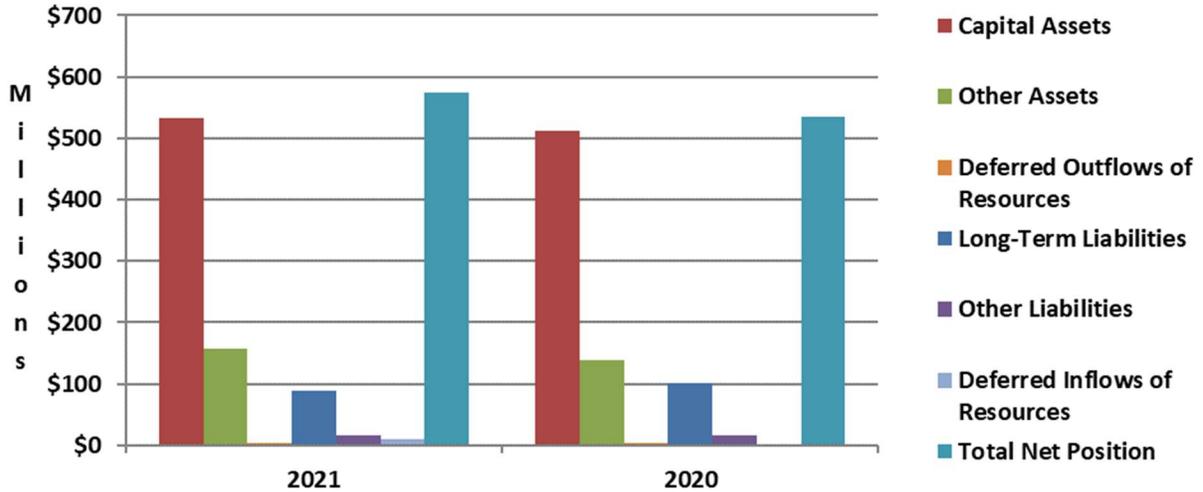
The following charts indicate the components of financial position:



**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**FINANCIAL POSITION (CONTINUED)**

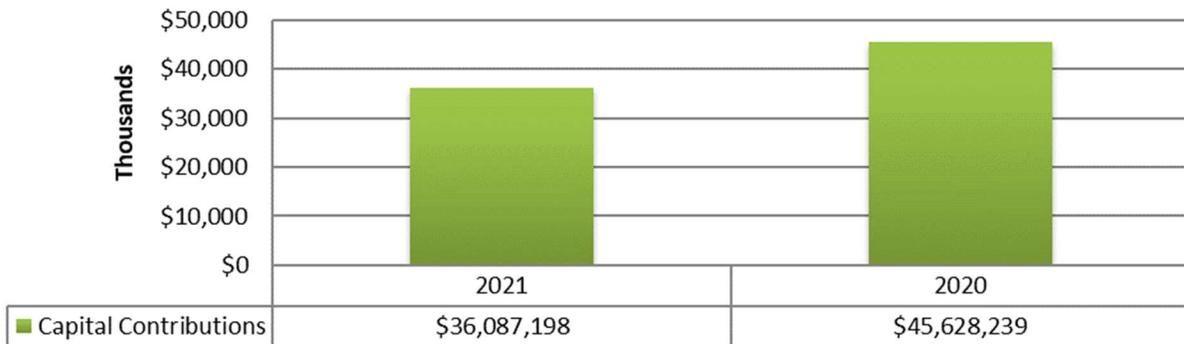
**COMPARATIVE STATEMENT OF NET POSITION**



**CAPITAL CONTRIBUTIONS**

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

**CAPITAL CONTRIBUTIONS**



These contributions are a result of continuing growth in the number of District customers. They include donated systems totaling \$29,215,895 and \$40,037,495 for the years ended December 31, 2021 and 2020, respectively. The activity in capital contributions in 2021 and 2020 was consistent with the business climate, as construction activity remained robust during those years.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**CAPITAL ASSETS**

	2021	2020	Increase (Decrease)	% Change
Land	\$ 5,594,790	\$ 5,594,790	\$ -	0.0%
Construction in Progress	9,528,597	7,474,910	2,053,687	27.5%
Total Assets Not Being Depreciated	<u>15,123,387</u>	<u>13,069,700</u>	<u>2,053,687</u>	15.7%
Plant	191,973,670	189,977,076	1,996,594	1.1%
Distribution and Collection Systems	508,918,881	475,748,661	33,170,220	7.0%
Machinery and Equipment	32,797,863	32,554,295	243,568	0.7%
Total Assets Being Depreciated	<u>733,690,414</u>	<u>698,280,032</u>	<u>35,410,382</u>	5.1%
Less Accumulated Depreciation	<u>(216,567,726)</u>	<u>(199,996,283)</u>	<u>(16,571,443)</u>	8.3%
Total Capital Assets	<u>\$ 532,246,075</u>	<u>\$ 511,353,449</u>	<u>\$ 20,892,626</u>	4.1%

**ANALYSIS OF CHANGES IN CAPITAL ASSETS**

Capital assets being depreciated increased \$35.4 million from 2020 to 2021. This was mostly made up of:

- \$33.2 million net increase to distribution and collection systems. \$29.2 million is from developer contributions.
- Construction-in-progress increased \$2.1 million. This is mainly due to construction costs incurred during 2021 for projects not substantially complete at year-end in excess over completed and capitalized construction projects. There were several large projects completed and capitalized, including the 520 Pressure Zone Extension for \$3.2 million, Snohomish County North Creek Trail Phase I for \$1.6 million, SCADA Hardware Upgrades for \$663 million, and Reservoir 1 and Meter Vault Rehabilitation for \$763.7 million.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 4, and 5.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2021**

**LONG-TERM DEBT**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$85.9 million; the decrease of \$5.6 million is a result of principal payments made and no new borrowing in 2021.

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 6 to the financial statements.

	2021	2020
Public Works Trust Fund Loans	\$ 2,334,521	\$ 2,822,624
State Revolving Fund Loans	11,788,917	12,697,198
Revenue Bonds	71,760,000	76,005,000
Total	\$ 85,883,438	\$ 91,524,822

See notes 4, 5, 6, and 7 in the financial statements for detail 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 8 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 – 156<sup>th</sup> St. SW, Lynnwood, WA 98087.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2021**

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CURRENT ASSETS**

Unrestricted:	
Cash and Cash Equivalents	\$ 28,728,421
Investments	43,319,518
Receivables, Net	15,762,630
Capacity Charge Receivable - Current Portion	174,702
Interest Receivable	192,725
Inventory	1,130,495
Prepaid Expenses	1,021,896
Total Unrestricted	<u>90,330,387</u>
Restricted:	
Cash Equivalents	4,358,270
Interest Receivable	49,346
Assessments Receivable - Current Portion	30,539
Total Restricted	<u>4,438,155</u>
Total Current Assets	94,768,542

**NONCURRENT ASSETS**

Unrestricted:	
Investments	30,385,294
Capacity Charge Receivable, Less Current Portion	741,887
Deposits with Fiscal Agent/Trustee	300,223
	<u>31,427,404</u>
Restricted:	
Investments	20,084,430
Assessments Receivable, Less Current Portion	4,134
Net Pension Asset	10,326,005
Total Restricted	<u>30,414,569</u>
Capital Assets Not Being Depreciated:	
Land	5,594,790
Construction in Progress	9,528,597
Capital Assets Being Depreciated:	
Plant	191,973,670
Distribution and Collection Systems	508,918,881
Machinery and Equipment	32,797,863
Less: Accumulated Depreciation	<u>(216,567,726)</u>
Net Capital Assets	<u>532,246,075</u>
Total Noncurrent Assets	<u>594,088,048</u>
Total Assets	688,856,590

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Loss on Refunding of Debt	1,751,512
Deferred Outflows Related to Pensions	1,284,951
Total Deferred Outflows of Resources	<u>3,036,463</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 691,893,053</u></u>

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2021**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,  
AND NET POSITION**

**CURRENT LIABILITIES**

Payable from Unrestricted Assets:	
Accounts Payable	\$ 4,424,657
Accrued Liabilities	1,285,513
Accrued Salaries and Benefits	611,164
Compensated Absences	1,216,590
Customer Deposits	2,391,342
Accrued Interest	310,742
Long-Term Debt - Current Maturities	5,989,122
Total Payable from Unrestricted Assets	<u>16,229,130</u>
Payable from Restricted Assets:	
Accounts Payable	<u>639,127</u>
Total Payable from Restricted Assets	<u>639,127</u>
Total Current Liabilities	16,868,257

**NONCURRENT LIABILITIES**

Long-Term Debt, Net of Current Maturities	88,532,710
Compensated Absences	403,640
Net Pension Liability	1,001,265
Total Noncurrent Liabilities	<u>89,937,615</u>
Total Liabilities	106,805,872

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	<u>10,637,967</u>
Total Liabilities and Deferred Inflows of Resources	117,443,839

**NET POSITION**

Net Investment in Capital Assets	455,679,696
Restricted for Debt Service	5,296,152
Restricted for Pensions	10,326,005
Unrestricted	103,147,361
Total Net Position	<u>574,449,214</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 691,893,053</u>

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, 2021**

**OPERATING REVENUES**

Water Charges for Services	\$ 42,642,251
Wastewater Charges for Services	55,903,817
Other Charges for Services	1,051,000
Total Operating Revenues	<u>99,597,068</u>

**OPERATING EXPENSES**

Personnel Services	13,776,334
Supplies and Services	12,288,071
Purchased Water	16,947,507
Purchased Wastewater	30,648,796
Depreciation	18,402,651
Taxes	1,957,255
Total Operating Expenses	<u>94,020,614</u>

**OPERATING INCOME**

5,576,454

**NONOPERATING REVENUES (EXPENSES)**

Investment Income	62,117
Interest on Assessments	3,922
Rental Income	360,058
Miscellaneous	57,545
Net Loss on Disposal of Assets	(345,875)
Interest and Amortization on Long-Term Debt	(1,953,459)
Total Nonoperating Revenues (Expenses)	<u>(1,815,692)</u>

**INCOME BEFORE CAPITAL CONTRIBUTIONS**

3,760,762

Capital Contributions - General Facility Charges	5,273,018
Capital Contributions - Developers	<u>30,814,180</u>

**CHANGE IN NET POSITION**

39,847,960

Net Position - Beginning of Year	<u>534,601,254</u>
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**NET POSITION - END OF YEAR**

\$ 574,449,214

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers	\$ 97,971,369
Cash Paid to Vendors	(60,468,347)
Cash Paid to and for Employees and Commissioners	(22,594,312)
Net Cash Provided by Operating Activities	14,908,710

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital Contributions	6,871,303
Interest Received on Assessments	3,922
Collections on ULID Assessments	24,429
Proceeds from Sale of Assets	120,023
Principal Paid on Debt	(5,641,384)
Interest Paid on Long-Term Debt	(3,282,893)
Expenditures for Plant in Service and Construction	(8,089,323)
Other Capital Related Receipts	417,587
Net Cash Used by Capital and Related Financing Activities	(9,576,336)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	36,300,000
Purchase of Investments	(30,580,775)
Interest Received on Investments	1,780,498
Net Cash Provided by Investing Activities	7,499,723

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

12,832,097

Cash and Cash Equivalents - Beginning of Year

20,254,594

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 33,086,691

Cash and Cash Equivalents Balance is Comprised  
of the Following at December 31:

Cash and Cash Equivalents - Unrestricted	\$ 28,728,421
Cash Equivalents - Restricted	4,358,270
Total	\$ 33,086,691

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, 2021**

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

Operating Income	\$ 5,576,454
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	18,402,651
(Increase) Decrease in Assets and Deferred	
Outflows of Resources:	
Receivables, Net	(1,591,793)
Inventory	(243,700)
Prepaid Expenses	(255,349)
Capacity Charge Receivable	135,671
Net Pension Asset	(10,326,005)
Deferred Outflows Related to Pensions	185,291
Increase (Decrease) in Liabilities and Deferred	
Inflows of Resources:	
Accounts Payable and Deposits	(3,149,474)
Accrued Salaries and Compensated Absences	36,328
Net Pension Liability	(3,296,765)
Deferred Inflows Related to Pensions	9,435,401
Net Cash Provided by Operating Activities	\$ 14,908,710

**SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH  
FINANCING AND INVESTING ACTIVITIES**

Utility Plant Donations Received	\$ 29,215,895
Decrease in Fair Value of Investments	\$ (1,568,703)

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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.

**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.

**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 \$8,538,239 were recorded and are reflected in Receivables, Net at year-end.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**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 15 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 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.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Capital Assets (Continued)**

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:

<b><u>Capital Asset Classes</u></b>	<b><u>Useful Life</u></b>
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.

**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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**Deferred Outflows/Inflows of Resources (Continued)**

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 the District's proportionate share of deferred inflows related to pension plans. 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.

**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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**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.

*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 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

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

**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, 2021 was \$3,200 and the bank balance was \$13,916,873.

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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)**

**Investments (Continued)**

**Investments Measured at Amortized Cost**

Local Government Investment Pool	<u>\$ 19,166,618</u>
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**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](http://www.tre.wa.gov).

As of December 31, 2021, the District held \$19,166,618 in LGIP investments which includes unspent bond proceeds of \$4,358,270.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)**

**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, 2021, the District had the following investments measured at fair value on a recurring basis:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Fair Value Measurement Using</b>		
		<b>in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
U.S. Treasury Notes	\$ 38,086,890	\$ 38,086,890	\$ -	\$ -
Government Sponsored Enterprises	50,054,721	-	50,054,721	-
Municipal Bonds	597,324	-	597,324	-
Supranationals	5,050,307	-	5,050,307	-
<b>Total</b>	<b>\$ 93,789,242</b>	<b>\$ 38,086,890</b>	<b>\$ 55,702,352</b>	<b>\$ -</b>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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, 2021 was 1.20 years.

The following schedule presents the investments and related maturities as of December 31, 2021:

<b>Investment Type</b>	<b>Investment Maturities (in Years)</b>		
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>
U.S. Treasury Notes	\$ 38,086,890	\$ 14,182,054	\$ 23,904,836
Government Sponsored Enterprises	50,054,721	29,137,464	20,917,257
Municipal Bonds	597,324	-	597,324
Supranationals	5,050,307	-	5,050,307
<b>Total</b>	<b>\$ 93,789,242</b>	<b>\$ 43,319,518</b>	<b>\$ 50,469,724</b>

**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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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 National Mortgage Association	\$ 8,601,954
Federal Home Loan Bank	21,729,525
Federal Farm Credit Bank	14,011,384
Federal Home Loan Mortgage Corporation	5,711,858

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**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, 2021 are as follows:

	Cash Equivalents	Investments	Interest Receivable	Assessment Receivable	PERS 2/3	Total
<b>Current Restricted Assets:</b>						
Revenue Bond Fund	\$ -	\$ -	\$ -	\$ 30,539	\$ -	\$ 30,539
Revenue Bond Reserve Fund	-	-	14,085	-	-	14,085
Unspent Bond Proceeds	4,358,270	-	35,261	-	-	4,393,531
	<u>4,358,270</u>	<u>-</u>	<u>49,346</u>	<u>30,539</u>	<u>-</u>	<u>4,438,155</u>
<b>Noncurrent Restricted Assets:</b>						
Revenue Bond Fund	-	-	-	4,134	-	4,134
Revenue Bond Reserve Fund	-	5,212,133	-	-	-	5,212,133
Unspent Bond Proceeds	-	14,872,297	-	-	-	14,872,297
Net Pension Asset	-	-	-	-	10,326,005	10,326,005
Total	<u>\$ 4,358,270</u>	<u>\$ 20,084,430</u>	<u>\$ 49,346</u>	<u>\$ 34,673</u>	<u>\$ 10,326,005</u>	<u>\$ 34,852,724</u>

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, 2021 is \$5,212,133 and was fully funded.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021 was as follows:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 5,594,790	\$ -	\$ -	\$ 5,594,790
Construction in Progress	7,474,910	11,629,134	(9,575,447)	9,528,597
Total	<u>13,069,700</u>	<u>11,629,134</u>	<u>(9,575,447)</u>	<u>15,123,387</u>
<b>Capital Assets Being Depreciated:</b>				
Plant	189,977,076	3,235,313	(1,238,719)	191,973,670
Distribution and Collection Systems	475,748,661	33,508,291	(338,071)	508,918,881
Machinery and Equipment	32,554,295	963,884	(720,316)	32,797,863
Total	<u>698,280,032</u>	<u>37,707,488</u>	<u>(2,297,106)</u>	<u>733,690,414</u>
<b>Accumulated Depreciation:</b>				
Plant	(63,566,314)	(8,016,480)	946,569	(70,636,225)
Distribution and Collection Systems	(120,200,785)	(8,399,453)	164,324	(128,435,914)
Machinery and Equipment	(16,229,184)	(1,986,718)	720,315	(17,495,587)
Total	<u>(199,996,283)</u>	<u>(18,402,651)</u>	<u>1,831,208</u>	<u>(216,567,726)</u>
Net Capital Assets	<u>\$ 511,353,449</u>	<u>\$ 30,933,971</u>	<u>\$ (10,041,345)</u>	<u>\$ 532,246,075</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5: SIGNIFICANT CONSTRUCTION COMMITMENTS**

The District is obligated under various contracts for construction in progress in the combined amount of \$24,213,888 of which \$4,893,434 has been expended as of December 31, 2021.

As of December 31, 2021, the District had the following significant construction projects in progress:

Project Name	Expended to Date	Remaining Commitment
164th St Transmission Main Relocation	\$ -	\$ 11,256,384
CIPP Sewer Relining	390,523	1,486,267
340 Pressure Zone Extension (V-3)	-	1,434,337
Sno Co Culverts Water and Sewer Relocations	-	1,303,067
Sno Co 36th/35th - 164th St SW to Hwy 99	-	915,103
Montevallo Participation Agreement	744,013	38,879
Trans Mains 1 and 2 Air-Vac and Blowoff Replacement	-	530,616
Emergency Asphalt Repairs	16,672	433,328
Sno. Co. 180th (SR 527 to 23rd Ave SE)	1,361,554	415,401
SR96 Water and Sewer Main Relocation	-	332,157
North Creek Trail Ph1	1,513,095	324,991
Lynnwood 196th St Water Main Replacement	-	289,000
2021 Asphalt Paving	-	165,042
Mukilteo Harbour Reach Corridor Project	298,435	137,101
228th Street SW Emergency	150,324	99,676
Exposed Sewer Pipe Replacement	320,585	90,046
Seattle Hill Road 2018 Overlay	-	34,701
228th St SE Rehabilitation Project	-	30,025
148th Watermain Settlement	98,233	4,333
	<u>\$ 4,893,434</u>	<u>\$ 19,320,454</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6: LONG-TERM DEBT**

Long-term debt outstanding at December 31, 2021 consisted of revenue and refunding bonds and direct borrowings as follows:

Description	
Revenue and Refunding Bonds:	
<i>2013 Revenue Bonds</i>	
\$25,000,000 issued in October 3, 2013 for construction, due serially through the year 2023, with interest payable semi-annually at 5.0 annual percentage rate.	\$ 1,230,000
<i>2020 Revenue and Refunding Bonds - Series A</i>	
\$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.	47,625,000
<i>2020 Refunding Bonds - Series B</i>	
\$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.	<u>22,905,000</u>
Total Revenue and Refunding Bonds	<u>71,760,000</u>
Direct Borrowings:	
All issued for utility construction and secured by the revenue of the system.	
<i>Public Works Trust Fund Loans</i>	
<i>05-691-PRE-108 Wastewater Facility Upgrade</i>	
\$1,000,000 loan: Payable \$52,632 annually through the year 2025, plus interest at 0.5 annual percentage rate.	210,526

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6: LONG-TERM DEBT (CONTINUED)**

Description	
<i>05-691-PRE-126 Wastewater Facility Upgrade</i> \$1,000,000 loan: Payable \$53,363 annually through the year 2025, plus interest at 0.5 annual percentage rate.	\$ 213,450
<i>06-962-001 Wastewater Facility Upgrade</i> \$7,000,000 loan: Payable \$382,109 annually through the year 2026, plus interest at 0.5 annual percentage rate.	1,910,545
<i>Drinking Water State Revolving Fund Loans</i>	
<i>L0900006 Wastewater Facility Upgrade</i> \$9,308,953 loan: Payable \$614,289 semi-annually through February 2031, including interest at 2.7 annual percentage rate.	5,113,476
<i>DM-12-952-098 Water Pump Station &amp; High Tank Upgrade</i> \$2,663,943 loan: Payable \$134,027 annually through the year 2034, including interest at 1.5 annual percentage rate.	1,742,352
<i>DM-13-952-125 660/520/340 Water Pressure Zones</i> \$5,858,044 loan: Payable \$308,318 annually through the year 2038, plus interest at 1.5 annual percentage rate.	4,933,089
	14,123,438
Total Long-Term Debt	85,883,438
Less: Current Maturities	(5,989,122)
Add: Unamortized Bond (Discounts) Premiums	8,638,394
Total	\$88,532,710

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6: LONG-TERM DEBT (CONTINUED)**

**Direct Borrowings**

The State of Washington has a low-cost financing program that allows public entities to borrow funds to finance public works projects. This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board. The State Revolving Fund program administered by the State of Washington also provides lower-cost financing to public projects that meet certain requirements.

A total of \$9,000,000 in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. \$7,000,000 of these funds were used for pre-construction design and planning activities. Each of these loans will be repaid over a period not to exceed 20 years at the interest rates stated above.

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquid's facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$2,663,943 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the D-1 Transmission Main Project. The final draw on the loan was completed in 2018, resulting in a total of \$5,858,044 with the first payment beginning in 2019.

**Revenue and Refunding Bonds**

In February 2010, the District issued \$53 million in new Water and Sewer Revenue bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. These bonds were issued as Build America Bonds – direct payment and were split into Series A and Series B. Series A totaled \$3.675 million and has been paid in full. The District has contracted with the Bank of New York, Mellon, the current fiscal agent, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all the 2010 bond proceeds were fully drawn and expended.

In October 2013, the District issued \$25,000,000 in revenue bonds to finance upcoming wastewater capital improvement projects. As of December 31, 2014, all the 2013 Revenue Bond proceeds were fully drawn and expended.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6: LONG-TERM DEBT (CONTINUED)**

**Revenue and Refunding Bonds (Continued)**

In November 2020, the District issued \$74.2 million in new Water and Sewer Revenue bonds to provide for a current refunding of the 2010 Revenue Bonds – Series B and a partial refunding of the 2013 Revenue Bonds. The proceeds will finance several capital projects including the Sewer Relining Program, the Picnic Point Wastewater Treatment Facility Equalization Basin, the Queensborough Sewer Rehabilitation and Upgrades to Lift Stations 16, 17 and 18. See Note 8 for refunding results.

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

Year Ending December 31,	Revenue and Refunding Bonds		Notes from Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2022	\$ 4,580,000	\$ 2,664,255	\$ 1,409,122	\$ 247,420	\$ 8,900,797
2023	4,800,000	2,445,855	1,422,207	225,259	8,893,321
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
2027-2031	22,045,000	5,262,375	4,797,355	447,096	32,551,826
2032-2036	11,645,000	2,423,390	1,943,672	104,558	16,116,620
2037-2041	10,235,000	1,062,815	308,318	4,624	11,610,757
2042-2043	2,730,000	117,278	-	-	2,847,278
Total	<u>\$ 71,760,000</u>	<u>\$ 19,973,533</u>	<u>\$ 14,123,438</u>	<u>\$ 1,568,141</u>	<u>\$ 107,425,112</u>

All bond debt is secured by the District revenues. See Note 3 for restricted investment totals for debt service as of December 31, 2021. There are a number of 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 7: CHANGES IN LONG-TERM LIABILITIES**

Changes in long-term liabilities for the year ended December 31, 2021 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	\$ 2,822,624	\$ -	\$ (488,103)	\$ 2,334,521	\$ 488,103
State Revolving Fund Loans	12,697,198	-	(908,281)	11,788,917	921,019
Revenue and Refunding Bonds	76,005,000	-	(4,245,000)	71,760,000	4,580,000
Bond Premium	9,910,746	-	(1,272,352)	8,638,394	-
Compensated Absences	1,647,506	1,372,055	(1,399,331)	1,620,230	1,216,590
Net Pension Liability PERS 1	2,970,526	-	(1,969,261)	1,001,265	-
Net Pension Liability PERS 2/3	1,327,504	-	(1,327,504)	-	-
	<u>\$ 107,381,104</u>	<u>\$ 1,372,055</u>	<u>\$ (11,609,832)</u>	<u>\$ 97,143,327</u>	<u>\$ 7,205,712</u>

**NOTE 8: 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, 2021 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, 2021 is \$19,940,000.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 8: 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 9: PENSION PLAN**

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2021:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension Liabilities	\$ 1,001,265
Pension Assets	\$(10,326,005)
Deferred Outflows of Resources	\$ 1,284,951
Deferred Inflows of Resources	\$ 10,637,967
Pension Expense	\$ (2,571,374)

**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 obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: 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 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee*</b>
January – June 2021:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.97%</b>	<b>6.00%</b>
July – December 2021:		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: 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 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: 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 2021 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – June 2021:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.97%</b>	<b>7.90%</b>
July – December 2021:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.25%</b>	<b>6.36%</b>

The District's actual PERS plan contributions were \$543,085 to PERS Plan 1 and \$887,578 to PERS Plan 2/3 for the year ended December 31, 2021.

**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 2021 with a valuation date of June 30, 2020. 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 *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL/A was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities (assets) were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

**Discount Rate**

The discount rate used to measure the total pension liability/(asset) for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability/(asset).

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: PENSION PLAN (CONTINUED)**

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4% 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**

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, 2021, are summarized in the table below. 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**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 7.4%, 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 (6.4%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 1,705,712	\$ 1,001,265	\$ 386,915
PERS 2/3	(2,941,678)	(10,326,005)	(16,407,001)

**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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9: PENSION PLAN (CONTINUED)**

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

At December 31, 2021, 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, 2021):

	<b>Liability (Asset)</b>
PERS 1	\$ 1,001,265
PERS 2/3	\$(10,326,005)

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

	<b>Proportionate Share 6/30/20</b>	<b>Proportionate Share 6/30/21</b>	<b>Change in Proportion</b>
PERS 1	0.084138%	0.081988%	0.002150%
PERS 2/3	0.103797	0.103658	0.000139

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 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**

For the year ended December 31, 2021, the District recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ (264,015)
PERS 2/3	<u>(2,307,359)</u>
Total	<u><u>\$(2,571,374)</u></u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: 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, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>PERS Plan 1</b>		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	(1,111,069)
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of		
Contributions	-	-
Contributions Subsequent to the Measurement Date	237,343	-
Total	<u>\$ 237,343</u>	<u>\$(1,111,069)</u>
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>PERS Plan 2/3</b>		
Differences Between Expected and Actual Experience	\$ 501,519	\$ (126,587)
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	(8,630,118)
Changes of Assumptions	15,090	(733,317)
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of		
Contributions	132,624	(36,876)
Contributions Subsequent to the Measurement Date	398,375	-
Total	<u>\$1,047,608</u>	<u>\$ (9,526,898)</u>
Total All Plans	<u>\$1,284,951</u>	<u>\$(10,637,967)</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 9: 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 following year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending December 31,</b>	<b>PERS Plan 1</b>	<b>PERS Plan 2/3</b>
2022	\$ (294,322)	\$ (2,325,735)
2023	(269,706)	(2,170,680)
2024	(255,018)	(2,097,175)
2025	(292,022)	(2,265,260)
2026	-	(25,400)
Thereafter	-	6,586
Total	<u>\$ (1,111,069)</u>	<u>\$ (8,877,665)</u>

**NOTE 10: 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/County Managers 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, 2021, the District will match 100% of eligible employee deferrals up to 3.75% of the participating employees' salaries. Employee deferrals totaled \$802,363 in 2021. District matching contributions totaled \$400,886 in 2021.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 11: 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, 2021:

	2020	2021
Liability - Beginning of Year	\$ 4,372	\$ -
Claims Incurred	7,269	1,282
Claim Payments	(11,641)	(1,282)
Liability - End of Year	\$ -	\$ -

**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 72 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 11: 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:

<b>TYPE OF COVERAGE</b>	<b>MEMBER DEDUCTIBLE</b>	<b>SELF-INSURED RETENTION/GROUP</b>	<b>EXCESS LIMITS</b>
<b>Property Loss:</b>			
Buildings and Contents	\$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$25,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
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	
<b>Liability:</b>			
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
<b>Other:</b>			
Cyber Liability	\$5,000	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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 11: RISK MANAGEMENT (CONTINUED)**

**Water and Sewer Risk Management Pool**

- 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 \$5,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight 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.

In the past three years (2021, 2020, and 2019), there have been no claims, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 12: 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 – 156<sup>th</sup> 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 \$704,159.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 13: LEASES**

The District purchased five buildings in 2020 and leases space in the buildings not currently needed (excess capacity) by the District for its principal operations. Lease income is classified as nonoperating revenue. There are ten tenants with leases expiring on various dates through January 2025. Future rental income due to the District under noncancellable leases is as follows:

Year Ending December 31,	Amount
2022	\$ 221,247
2023	182,600
2024	116,646
2025	1,581
	<u>\$ 522,074</u>

The cost and carrying amount of the leased assets as of December 31, 2021, are as follow:

Asset:	
Land	\$ 4,215,695
Buildings	3,448,239
Less: Accumulated Depreciation	<u>(103,662)</u>
Net Carrying Value	<u>\$ 7,560,272</u>

**NOTE 14: COVID-19 PANDEMIC**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The District proactively implemented safety measures, and operations continued with most staff working remotely until July 2021. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the District has not experienced any direct financial impacts due to the pandemic.

The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the District is unknown at this time.

**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
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
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
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
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](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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