

Washington State Auditor's Office
Financial Statements Audit Report

Highland Water District
Snohomish County

Audit Period
January 1, 2010 through December 31, 2011

Report No. 1008137

Issue Date
August 13, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

August 13, 2012

Board of Commissioners
Highland Water District
Monroe, Washington

Report on Financial Statements

Please find attached our report on the Highland Water District's financial statements.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

Highland Water District
Snohomish County
January 1, 2010 through December 31, 2011

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	5

**Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters in Accordance
with *Government Auditing Standards***

**Highland Water District
Snohomish County
January 1, 2010 through December 31, 2011**

Board of Commissioners
Highland Water District
Monroe, Washington

We have audited the basic financial statements of the Highland Water District, Snohomish County, Washington, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 1, 2012.

We conducted our audit 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the District in a separate letter dated August 1, 2012.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

This report is intended for the information and use of management and the Board of Commissioners. 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, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 1, 2012

Independent Auditor's Report on Financial Statements

Highland Water District Snohomish County January 1, 2011 through December 31, 2011

Board of Commissioners
Highland Water District
Monroe, Washington

We have audited the accompanying basic financial statements of the Highland Water District, Snohomish County, Washington, as of and for the year ended December 31, 2011, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Highland Water District, as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 be presented to supplement the basic financial statements. Such information, 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 the 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 1, 2012

Financial Section

**Highland Water District
Snohomish County
January 1, 2011 through December 31, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2011

Statement of Revenues, Expenses and Changes in Fund Net Position – 2011

Statement of Cash Flows – 2011

Notes to Financial Statements – 2011

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2011

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position; a Statement of Revenues, Expenses & Changes in Fund Net Position; a Statement of Cash Flows; and Notes to Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2011. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

Condensed Comparative Statement of Net Position

The following condensed statements of net position present the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current Assets	\$ 643,743	\$ 631,976
Noncurrent Assets:		
Capital Assets - Net	9,489,270	9,721,904
Other	<u>422,013</u>	<u>374,403</u>
Total Assets	<u>\$ 10,555,026</u>	<u>\$ 10,728,283</u>
<u>Liabilities</u>		
Current Liabilities	\$ 387,951	\$ 423,443
Noncurrent Liabilities:		
Long-Term Debt	5,758,636	6,034,558
Other	<u>8,282</u>	<u>10,192</u>
Total Liabilities	<u>\$ 6,154,869</u>	<u>\$ 6,468,193</u>
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 3,453,090	\$ 3,375,929
Restricted for Debt Service	512,495	73,053
Restricted for Capital Projects	27,619	26,087
Unrestricted	<u>406,953</u>	<u>785,021</u>
Total Net Position	<u>\$ 4,400,157</u>	<u>\$ 4,260,090</u>

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2011

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance and construction funds which are unrestricted and can be used for day-to-day operations. The balance held in these fund decreased by \$17,063 in 2011. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts increased by \$24,191 in 2011. The remainder of the current assets include accounts receivable, accrued interest receivable, prepaid expenses, inventories and the current portion of the Friar Creek assessments receivable.

Noncurrent Assets consist of U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items increased by \$47,610 due to a resolution passed in 2011 which increased the Friar Creek Assessment Receivable. Noncurrent assets also include capital assets net of accumulated depreciation.

Liabilities

Current liabilities consist of accounts payable, retainage, accrued interest payable on debt and the current portion of long-term debt. These items decreased \$35,492 in 2011, primarily due to the paying down of debt during the year and decreases in developer extension deposits.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. The vested benefits decreased by \$1,910 and long term debt decreased by \$275,922 due to required payments of principal during the year. The District did not incur any additional long-term debt during the year.

Net Position consists of assets minus liabilities. The increase in net position for 2011 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District's net position indicate the District's overall financial growth. The increase in net position is a positive sign of the District's financial strength.

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2011

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

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2011</u>	<u>2010</u>
<u>Revenues</u>		
Water Operating Revenue	\$ 949,346	\$ 949,002
Interest Income	<u>21,639</u>	<u>20,412</u>
Total Revenues	<u>\$ 970,985</u>	<u>\$ 969,414</u>
<u>Expenses</u>		
Operating Expenses	\$ 713,722	\$ 701,596
Nonoperating Expenses	<u>201,442</u>	<u>206,587</u>
Total Expenses	<u>\$ 915,164</u>	<u>\$ 908,183</u>
Change in Net Position before Capital Contributions	\$ 55,821	\$ 61,231
Capital Contributions	<u>84,246</u>	<u>30,550</u>
Change in Net Position	140,067	91,781
<u>Total Net Position, January 1</u>	<u>\$ 4,260,090</u>	<u>\$ 4,168,309</u>
<u>Total Net Position, December 31</u>	<u>\$ 4,400,157</u>	<u>\$ 4,260,090</u>

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

Revenues

Water operating revenue increased by \$344 in 2011. There was a rate increase on October 1, 2010, partially offset by a decrease in consumption. Nonoperating revenue, which is interest income from investments, increased by \$1,227 in 2011.

Expenses

Operating expenses increased by \$12,126 in 2011. The increase was due to increased field labor of \$19,234 as a result of increased field staffing, increased backup service charges of \$7,641, increased payroll taxes and benefits of \$4,982 and increased permit fees of \$3,315. These increases were partially offset by decreased administrative wages of \$20,052 as a result of a decrease in the administrative staffing during 2011.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by \$5,145 in 2011 due to a decreasing outstanding loan balance through 2011 as the District paid down its debt. No new borrowings occurred in 2011.

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2011

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

Capital Contributions increased by \$53,696 in 2011. The increase was a result of the District enacting a resolution increasing the customer's monthly payments on Friar Creek Assessment Receivable from \$52 to \$57 on October 1, 2011 through September 30, 2012 and from \$57 to \$62 on October 1, 2012.

Change in Net Position

The District recorded growth in their net position in 2011, reflecting the fact that total revenues exceeded expenses.

Analysis of Overall Financial Condition

The District's financial condition improved in 2011 with adequate liquid assets and positive operating cash flow.

Capital Assets

Capital assets consist of land, utility plant and equipment. The District did not incur any additions to its capital assets during 2011. Over the next five years it is not anticipated there will be any major capital spending other than changing out meters.

Capital assets activity for the year ended December 31, 2011 was as follows:

	Balance <u>12/31/11</u>	Balance <u>12/31/10</u>	<u>Change</u>
Land	\$ 99,147	\$ 99,147	\$ -
Utility Plant	11,469,585	11,469,585	-
Equipment	83,974	83,974	-
Intangibles	182,581	182,581	-
Accumulated Depreciation	<u>(2,346,017)</u>	<u>(2,113,383)</u>	<u>(232,634)</u>
Total Capital Assets, Net	<u>\$ 9,489,270</u>	<u>\$ 9,721,904</u>	<u>\$ (232,634)</u>

Long-Term Debt

At December 31, 2011, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of \$2,177,467, and total United States Department of Agriculture loans outstanding of \$3,869,874. The total long-term debt of the District decreased by \$293,556 during 2011 due to principal payments made on the loans.

Highland Water District
Statement of Net Position
December 31, 2011

	<u>2011</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Maintenance Fund:	
Cash & Cash Equivalents	\$ 177,932
Accrued Interest Receivable	8
Construction Fund:	
Cash & Cash Equivalents	219,991
Accrued Interest Receivable	1,033
Receivables :	
Customer Accounts Receivable	90,515
Restricted Assets:	
Cash & Cash Equivalents - Other	27,619
USDA Reserve Funds:	
Cash & Cash Equivalents	79,417
Accrued Interest Receivable	9
Assessments Receivable - Friar Creek - Current Portion	11,056
Inventories	27,014
Prepayments	<u>9,149</u>
 Total Current Assets	 \$ <u>643,743</u>
 <u>Noncurrent Assets</u>	
Restricted Assets:	
U.L.I.D. Assessments Receivable	\$ 15,296
Assessments Receivable - Friar Creek (Net of Current Portion)	406,717
Capital Assets (Net)	<u>9,489,270</u>
 Total Noncurrent Assets	 \$ <u>9,911,283</u>
 Total Assets	 \$ <u>10,555,026</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Highland Water District
Statement of Net Position
December 31, 2011

	<u>2011</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 15,568
Accrued Interest Payable	9,877
Current Portion of Long-Term Debt	276,096
Payables from Restricted Assets:	
Accrued Interest Payable - USDA Loans	84,962
Retainage	<u>1,448</u>
 Total Current Liabilities	 \$ <u>387,951</u>
 <u>Noncurrent Liabilities</u>	
Department of Agriculture Loans	\$ 3,869,874
Public Works Trust Fund Loans	1,784,019
State Revolving Fund Loan	393,448
Less Current Portion of Long-Term Debt	(276,096)
Less Deferred Charges	(12,609)
Vested Benefits	<u>8,282</u>
 Total Noncurrent Liabilities	 \$ <u>5,766,918</u>
 Total Liabilities	 \$ <u>6,154,869</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 3,453,090
Restricted for Debt Service	512,495
Restricted for Capital Projects	27,619
Unrestricted	<u>406,953</u>
 Total Net Position	 \$ <u>4,400,157</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Highland Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2011

	<u>2011</u>
<u>Operating Revenues</u>	
Water Sales	\$ 930,998
Penalties	13,913
Miscellaneous Revenue	<u>4,435</u>
Total Operating Revenues	\$ 949,346
<u>Operating Expenses</u>	
Water Purchases	\$ 107,909
Labor Costs	170,847
Payroll Taxes & Benefits	39,263
System Maintenance and Supplies	7,301
Other Operating Expenses	17,058
Depreciation Expense	232,634
Business Taxes	48,781
General & Administrative Expenses	<u>89,929</u>
Total Operating Expenses	\$ <u>713,722</u>
Operating Income (Loss)	\$ 235,624
<u>Nonoperating Revenues (Expenses)</u>	
Interest on Investments	\$ 21,639
Interest Expense	<u>(201,442)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(179,803)</u>
Income (Loss) Before Contributions	\$ 55,821
Capital Contributions	<u>84,246</u>
Change in Net Position	\$ 140,067
<u>Total Net Position, January 1</u>	<u>\$ 4,260,090</u>
<u>Total Net Position, December 31</u>	<u>\$ 4,400,157</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2011

	<u>2011</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 945,675
Cash Paid to Suppliers	(272,576)
Cash Paid to Employees	<u>(207,720)</u>
Net Cash Provided by Operating Activities	<u>\$ 465,379</u>
<u>Cash Flows From Capital & Related Financing Activities</u>	
Principal Payments on Public Works Trust Fund Loans	\$ (169,850)
Principal Payments on State Revolving Fund Loan	(56,207)
Principal Payments on Dept. of Agriculture Loans	(66,961)
Interest Paid on Long-Term Debt	(204,212)
Capital Contributions	34,272
Developer & Other Deposits	<u>(16,777)</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (479,735)</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 21,484</u>
Net Cash Provided by Investing Activities	<u>\$ 21,484</u>
Net Increase in Cash & Cash Equivalents	\$ 7,128
Cash & Cash Equivalents at Beginning of Year	<u>497,831</u>
Cash & Cash Equivalents at End of Year	<u>\$ 504,959</u>
<u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ -</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2011

	<u>2011</u>
<u>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ 235,624
<u>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities</u>	
Depreciation	\$ 232,634
Change in Assets & Liabilities:	
(Increase) Decrease in Customer Accounts Receivable	(3,671)
(Increase) Decrease in Prepayments	(122)
(Increase) Decrease in Inventories	1,674
Increase (Decrease) in Accounts Payable	1,150
Increase (Decrease) in Vested Benefits	<u>(1,910)</u>
Total Adjustments	<u>\$ 229,755</u>
Net Cash Provided by Operating Activities	<u>\$ 465,379</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Highland Water District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District.

a. Reporting Entity

Highland Water District is a municipal water district governed by an elected 3 member board. The District operates principally as a purveyor of water in Snohomish County, Washington. The District was formed effective April 1, 1998 under the authority of Highland Water District Resolution No. 98-001, after the Snohomish County Canvassing Board certified that the special election held March 10, 1998 overwhelmingly voted for the formation of Highland Water District. The District merged with the Friar Creek Water Users Association on January 9, 2003. As part of the merger agreement, the properties in the Friar Creek Water Users Association will bear the total expense for, and repayment of, the U.S. Department of Agriculture Rural Development loan to Highland Water District for the new system and additional fire protection. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Basis of Accounting and Presentation (Continued)

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services and include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets

Capital assets placed in service are recorded at cost. The District uses a capitalization threshold of \$1,000. The provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3-10 years; Plant, 5-75 years, Intangibles, 5-10 years. Donations by developers are recorded at the contract price. The assets and liabilities of the Highland Water Association were transferred to the District on April 1, 1998. The costs associated with the formation of the District have been capitalized.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects that are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service requirements.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at cost which generally approximates market value. See Note 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

j. Subsequent Events

Management has evaluated subsequent events through April 25, 2012, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS & INVESTMENTS

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

All investments are under the management of the Snohomish County Treasurer. As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

The District's cash and investment balances at year end are shown below. Carrying amount and market value are the same.

	<u>12/31/11</u>
Petty Cash Fund	\$ 500
Bank Deposit Accounts - FDIC Insured	122,476
Cash on Deposit with Snohomish County Treasurer	27,136
Investment in State Investment Pool	<u>354,847</u>
Total Cash & Investments	<u>\$ 504,959</u>

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 99,147	\$ -	\$ -	\$ 99,147
<u>Total capital assets not being depreciated</u>	<u>99,147</u>	<u>-</u>	<u>-</u>	<u>99,147</u>
Capital assets being depreciated:				
Plant	11,469,585	-	-	11,469,585
Equipment	83,974	-	-	83,974
Intangibles	<u>182,581</u>	<u>-</u>	<u>-</u>	<u>182,581</u>
<u>Total capital assets being depreciated</u>	<u>11,736,140</u>	<u>-</u>	<u>-</u>	<u>11,736,140</u>
Less accumulated depreciation for:				
Plant	1,911,187	209,982	-	2,121,169
Equipment	52,894	5,665	-	58,559
Intangibles	<u>149,302</u>	<u>16,987</u>	<u>-</u>	<u>166,289</u>
<u>Total accumulated depreciation</u>	<u>2,113,383</u>	<u>232,634</u>	<u>-</u>	<u>2,346,017</u>
<u>Total capital assets being depreciated, net</u>	<u>9,622,757</u>	<u>(232,634)</u>	<u>-</u>	<u>9,390,123</u>
 <u>TOTAL CAPITAL ASSETS, NET</u>	 <u>\$ 9,721,904</u>	 <u>\$ (232,634)</u>	 <u>\$ -</u>	 <u>\$ 9,489,270</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 4 - LONG-TERM DEBT

a. Department of Agriculture Loans

The District has entered into agreements with the United States Department of Agriculture to receive the following loans:

	<u>2011</u>
1996 loan - payable at \$1,826 monthly (including interest at 5.5% per annum) through the year 2036	\$ 294,488
2003 loan - payable at \$29,858 annually (including interest at 4.625% per annum) through the year 2027	325,099
2003 loan - payable at \$27,016 annually (including interest at 4.5% per annum) through the year 2023	231,170
2009 loan - payable at \$161,551 annually (including interest at 4.25% per annum) through the year 2049	<u>3,019,117</u>
	<u>\$ 3,869,874</u>

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2011, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 70,537	\$ 169,800	\$ 240,337
2013	73,713	166,624	240,337
2014	77,034	163,303	240,337
2015	80,505	159,832	240,337
2016	84,133	156,204	240,337
2017 - 2021	481,133	720,553	1,201,686
2022 - 2026	485,913	608,984	1,094,897
2027 - 2031	426,669	505,439	932,108
2032 - 2036	502,921	403,158	906,079
2037 - 2041	512,174	295,581	807,755
2042 - 2046	630,664	177,091	807,755
2047 - 2049	<u>444,478</u>	<u>38,227</u>	<u>482,705</u>
	<u>\$ 3,869,874</u>	<u>\$ 3,564,796</u>	<u>\$ 7,434,670</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 4 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

	<u>2011</u>
2000 loan - payable at \$4,931 annually through the year 2020, plus interest at .5% per annum	\$ 44,381
2000 loan - payable at \$8,644 annually through the year 2020, plus interest at .5% per annum	77,800
2002 loan - payable at \$73,786 annually through the year 2022, plus interest at .5% per annum	811,643
2004 loan - payable at \$17,671 annually through the year 2024, plus interest at .5% per annum	229,724
2005 loan - payable at \$20,500 annually through the year 2011. The interest rate is 0%.	-
2005 loan - payable at \$14,122 annually through the year 2025, plus interest at 2% per annum	197,708
2005 loan - payable at \$30,197 annually through the year 2025, plus interest at .5% per annum	<u>422,763</u>
	<u>\$ 1,784,019</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2011, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 149,352	\$ 11,886	\$ 161,238
2013	149,352	10,927	160,279
2014	149,352	9,969	159,321
2015	149,352	9,010	158,362
2016	149,352	8,051	157,403
2017 - 2021	733,183	25,878	759,061
2022 - 2025	<u>304,076</u>	<u>5,233</u>	<u>309,309</u>
	<u>\$ 1,784,019</u>	<u>\$ 80,954</u>	<u>\$ 1,864,973</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 4 - LONG-TERM DEBT (Continued)

c. Drinking Water State Revolving Fund Loan

The District has entered into an agreement with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Drinking Water State Revolving Fund loan:

1997 loan - payable at \$56,207 annually through
the year 2018, plus interest at 4% per annum \$ 393,448

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2011, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 56,207	\$ 15,738	\$ 71,945
2013	56,207	13,490	69,697
2014	56,207	11,241	67,448
2015	56,207	8,993	65,200
2016	56,207	6,745	62,952
2017 - 2018	<u>112,413</u>	<u>6,745</u>	<u>119,158</u>
	<u>\$ 393,448</u>	<u>\$ 62,952</u>	<u>\$ 456,400</u>

d. Changes in Long-Term Debt

During the year ended December 31, 2011, the following changes occurred in long-term debt:

	<u>Balance</u>		<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due Within</u>
	<u>1/1/11</u>				<u>12/31/11</u>	<u>One Year</u>
U.S. Department of Agriculture Loans	\$ 3,937,371	\$ -	\$ 67,497	\$ 3,869,874	\$ 70,537	
Public Works Trust Fund Loans	1,953,871	-	169,852	1,784,019	149,352	
Drinking Water State Revolving Fund Loan	<u>449,655</u>	<u>-</u>	<u>56,207</u>	<u>393,448</u>	<u>56,207</u>	
Total Long-Term Debt	<u>\$ 6,340,897</u>	<u>\$ -</u>	<u>\$ 293,556</u>	<u>\$ 6,047,341</u>	<u>\$ 276,096</u>	

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 5 - PENSION PLAN

All district employees covered by a collective bargaining agreement are members of the Western Conference of Teamsters Pension Trust fund, a multiple employer union pension plan. Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

The District makes pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all covered employees at the rate of \$0.75 per hour for the first 2080 hours. The District's total contributions to the Trust Fund were \$5,025 in 2011.

As of January 1, 2010, the actuarial value of the assets in the Pension Trust fund was \$30,734,945,000, the value of the liabilities was \$34,414,558,000, and the funded ratio was 93.4%. The market value of the fund on December 31, 2010 was \$29,164,796,854. As of December 31, 2010, the asset allocation of the fund's assets were as follow: 20.67% US Government securities, 20.97% corporate debt instruments, 5.66% corporate stocks, 7.3% partnership/joint venture interests, 6.03% real estate, 0.20% loans, 30.86% common/collective trusts, 4.44% pooled separate accounts, 0.53% funds held in insurance company general account, 0.05% building and other property used in the fund's operations, 1.23% interest bearing cash, 2.06% value of interest in 103-102 investment entities.

NOTE 6 - RISK MANAGEMENT

The District is a member of Enduris. 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-insure, 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. Enduris was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Government Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2011, there are 468 Enduris members representing a broad range of special purpose districts.

Enduris allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. Enduris provides "occurrence" policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk" basis blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$100 million for all members. Enduris offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2011

NOTE 6 - RISK MANAGEMENT (Continued)

Members make an annual contribution to fund Enduris. Enduris acquires insurance from unrelated insurance companies that is subject to a “per occurrence”:

\$1,000,000 deductible on liability loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$999,000 on liability loss; \$250,000 deductible on property loss - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$249,000 on property loss. Enduris is responsible for the \$4,000 deductible on boiler and machinery loss.

Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contributions to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

NOTE 7 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 8 - CONTINGENCIES

The District’s financial statements include all material liabilities. There are no material contingent liabilities to record or disclose.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Deputy Chief of Staff
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