

Washington State Auditor's Office
Financial Statements Audit Report

Highland Water District
Snohomish County

Audit Period
January 1, 2010 through December 31, 2010

Report No. 1006766

Issue Date
November 28, 2011



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 28, 2011

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

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Snohomish County
January 1, 2010 through December 31, 2010

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**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, 2010**

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, 2010, and have issued our report thereon dated October 13, 2011.

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 November 10, 2011.

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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

October 13, 2011

Independent Auditor's Report on Financial Statements

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

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, 2010, 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, 2010, 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.

The management's discussion and analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

October 13, 2011

Financial Section

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

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010

Statement of Revenues, Expenses and Changes in Net Assets – 2010

Statement of Cash Flows – 2010

Notes to Financial Statements – 2010

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2010

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses & Changes in Net Assets; a Statement of Cash Flows; and Notes to the 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, 2010. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

Condensed Comparative Statement of Net Assets

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

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current Assets	\$ 631,976	\$ 550,603
Noncurrent Assets:		
Capital Assets - Net	9,721,904	9,958,181
Other	<u>374,403</u>	<u>384,987</u>
Total Assets	<u>\$ 10,728,283</u>	<u>\$ 10,893,771</u>
<u>Liabilities</u>		
Current Liabilities	\$ 423,443	\$ 391,209
Noncurrent Liabilities:		
Long-Term Debt	6,034,558	6,327,759
Other	<u>10,192</u>	<u>6,494</u>
Total Liabilities	<u>\$ 6,468,193</u>	<u>\$ 6,725,462</u>
<u>Net Assets</u>		
Invested in Capital Assets - Net of Related Debt	\$ 3,375,929	\$ 3,353,922
Restricted for Debt Service	73,053	427,376
Restricted for Capital Projects	26,087	299,768
Unrestricted	<u>785,021</u>	<u>87,243</u>
Total Net Assets	<u>\$ 4,260,090</u>	<u>\$ 4,168,309</u>

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2010

Analysis of the Condensed Comparative Statement of Net Assets

Assets

Current assets consist of cash and cash equivalents held in various funds. The balance held in these funds increased by \$82,943 in 2010. 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 decreased by \$10,584 due to the principal collections received in 2010. Noncurrent assets also include capital assets net of accumulated depreciation.

Liabilities

Current liabilities consist of accounts payable, deposits, accrued interest payable on debt and the current portion of long-term debt. These items increased by \$32,234 in 2010, primarily due to the increase in the current portion of the long-term debt.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. The vested benefits increased by \$3,698, and long term debt decreased by \$293,201 due to required payments of principal during the year. The district did not incur any additional long-term debt during the year.

Net Assets consist of assets minus liabilities. The increase in net assets for 2010 corresponds to the change in net assets from the statement of revenues, expenses, and changes in net assets. Over time, increases or decreases in the district's net assets indicate the district's overall financial growth. The growth of net assets is a positive sign of the district's financial strength.

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2010

Condensed Comparative Statement of Revenues, Expenses & Changes in Net Assets

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

	<u>2010</u>	<u>2009</u>
<u>Revenues</u>		
Water Operating Revenue	\$ 949,002	\$ 803,410
Interest Income	<u>20,412</u>	<u>22,476</u>
Total Revenues	<u>\$ 969,414</u>	<u>\$ 825,886</u>
<u>Expenses</u>		
Operating Expenses	\$ 701,596	\$ 771,981
Nonoperating Expenses	<u>206,587</u>	<u>163,484</u>
Total Expenses	<u>\$ 908,183</u>	<u>\$ 935,465</u>
Change in Net Assets before Capital Contributions	\$ 61,231	\$ (109,579)
Capital Contributions	<u>30,550</u>	<u>256,821</u>
Change in Net Assets	91,781	147,242
<u>Total Net Assets, January 1</u>	<u>\$ 4,168,309</u>	<u>\$ 4,021,067</u>
<u>Total Net Assets, December 31</u>	<u>\$ 4,260,090</u>	<u>\$ 4,168,309</u>

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

Revenues

Water operating revenue increased by \$145,592 in 2010, due primarily to an increase in water rates. Non-operating revenue, which is interest income from investments, decreased by \$2,064 in 2010.

Expenses

Operating expenses decreased by \$70,385 in 2010. Contract labor declined by \$31,059 due to the slowing of projects. System maintenance and repairs expense decreased by \$8,965, water purchases declined by \$5,806, and professional fees were lower by \$24,764.

Non-operating expenses consist of interest expense on long-term debt. The interest on the debt increased by \$43,103 in 2010. This increase was the result of borrowings on Department of Agriculture loans in 2009, with 2010 including a full year of interest on this debt.

Highland Water District
 Management's Discussion and Analysis
 Year Ended December 31, 2010

Capital Contributions decreased in 2010 by \$226,271. The reason for this decrease was that bills of sale for donated systems from developers were recorded in 2009 in the amount of \$222,801, while no donated systems were recorded in 2010. The decrease in the cash portion of capital contributions was only \$3,470. The district collects connection charges to ensure that future customers bear most of the burden of growth. Because the district does not utilize connection charges to subsidize operations, these contributions do not impact operating income.

Change in Net Assets. The district recorded growth in net assets in 2010, reflecting the fact that total revenues exceeded expenses.

Analysis of Overall Financial Condition

The district's financial condition improved in 2010 with adequate liquid assets and positive operating cash flow.

The district conducted a rate study in 2010 and increased rates in order to ensure meeting the debt service requirements and increased operating costs.

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment. The district did not incur any significant additions to its capital assets during 2010. 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, 2010 was as follows:

	<u>Balance</u> <u>12/31/10</u>	<u>Balance</u> <u>12/31/09</u>	<u>Change</u>
Land	\$ 99,147	\$ 99,147	\$ -
Construction in Progress	-	-	-
Utility Plant	11,469,585	11,469,320	265
Equipment	83,974	83,974	-
Intangibles	182,581	182,581	-
Accumulated Depreciation	<u>(2,113,383)</u>	<u>(1,876,841)</u>	<u>(236,542)</u>
Total Capital Assets, Net	<u>\$ 9,721,904</u>	<u>\$ 9,958,181</u>	<u>\$ (236,277)</u>

Long-Term Debt

At December 31, 2010, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of \$2,403,526, and total United States Department of Agriculture loans outstanding of \$3,937,371. The total long-term debt of the District decreased by \$260,279 during 2010. This reduction is due to principal payments made on the loans.

Highland Water District
Statement of Net Assets
December 31, 2010

2010

ASSETS

Current Assets

Maintenance Fund:	
- Cash & Cash Equivalents	\$ 163,827
- Accrued Interest Receivable	18
Construction Fund:	
- Cash & Cash Equivalents	251,159
- Accrued Interest Receivable	865
Receivables (Net):	
Customer Accounts Receivable	86,843
Restricted Assets:	
Cash & Cash Equivalents - Other	26,087
USDA Reserve Funds:	
- Cash & Cash Equivalents	56,758
- Accrued Interest Receivable	12
Assessments Receivable - Friar Creek - Current Portion	8,692
Inventories	28,688
Prepayments	<u>9,027</u>
Total Current Assets	<u>\$ 631,976</u>

Noncurrent Assets

Restricted Assets:	
U.L.I.D. Assessments Receivable	\$ 16,283
Assessments Receivable - Friar Creek (Net of Current Portion)	358,120
Capital Assets (Net)	<u>9,721,904</u>
Total Noncurrent Assets	<u>\$ 10,096,307</u>
Total Assets	<u>\$ 10,728,283</u>

See accompanying notes and accountant's report.

Highland Water District
Statement of Net Assets
December 31, 2010

	<u>2010</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable - Maintenance	\$ 14,417
Accrued Interest Payable - Unrestricted	22,870
Current Portion of Long-Term Debt	293,193
Payables from Restricted Assets:	
Accrued Interest Payable - USDA Loans	74,739
Developer Extension Deposits	<u>18,224</u>
 Total Current Liabilities	 \$ <u>423,443</u>
 <u>Noncurrent Liabilities</u>	
Department of Agriculture Loans	\$ 3,937,371
Public Works Trust Fund Loans	1,953,871
State Revolving Fund Loan	449,655
Less Current Portion of Long-Term Debt	(293,193)
Less Deferred Charges	(13,146)
Vested Benefits	<u>10,192</u>
 Total Noncurrent Liabilities	 \$ <u>6,044,750</u>
 Total Liabilities	 \$ <u>6,468,193</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 3,375,929
Restricted for Debt Service	73,053
Restricted for Capital Projects	26,087
Unrestricted	<u>785,021</u>
 Total Net Assets	 \$ <u>4,260,090</u>

See accompanying notes and accountant's report.

Highland Water District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended December 31, 2010

	<u>2010</u>
<u>Operating Revenues</u>	
Water Sales	\$ 932,865
Penalties	13,395
Miscellaneous Revenue	<u>2,742</u>
Total Operating Revenues	\$ 949,002
 <u>Operating Expenses</u>	
Water Purchases	\$ 105,721
Labor Costs	167,847
Payroll Taxes & Benefits	34,281
System Maintenance and Supplies	7,451
Other Operating Expenses	10,104
Depreciation Expense	236,542
Business Taxes	48,800
General & Administrative Expenses	<u>90,850</u>
Total Operating Expenses	\$ <u>701,596</u>
Operating Income (Loss)	\$ 247,406
 <u>Nonoperating Revenues (Expenses)</u>	
Interest on Investments	\$ 20,412
Interest Expense	<u>(206,587)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(186,175)</u>
Income (Loss) Before Contributions	\$ 61,231
 Capital Contributions	<u>30,550</u>
Change in Net Assets	\$ 91,781
 <u>Total Net Assets, January 1</u>	<u>\$ 4,168,309</u>
 <u>Total Net Assets, December 31</u>	<u>\$ 4,260,090</u>

See accompanying notes and accountant's report.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2010

	<u>2010</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 950,239
Cash Paid to Suppliers	(266,543)
Cash Paid to Employees	<u>(196,766)</u>
Net Cash Provided by Operating Activities	<u>\$ 486,930</u>
 <u>Cash Flows From Capital & Related Financing Activities</u>	
Acquisition and Construction of Capital Assets	\$ (265)
Principal Payments on Public Works Trust Fund Loans	(169,851)
Principal Payments on State Revolving Fund Loan (56,206)	
Principal Payments on Dept. of Agriculture Loans	(33,675)
Interest Paid on Long-Term Debt	(207,014)
Capital Contributions	40,781
Developer & Other Deposits	<u>1,448</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (424,782)</u>
 <u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 20,795</u>
Net Cash Provided by Investing Activities	<u>\$ 20,795</u>
Net Increase in Cash & Cash Equivalents	\$ 82,943
Cash & Cash Equivalents at Beginning of Year	<u>414,888</u>
Cash & Cash Equivalents at End of Year	<u>\$ 497,831</u>
 <u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ -0-</u>

See accompanying notes and accountant's report.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2010

	<u>2010</u>
<u>Reconciliation of Net Operating Income</u> <u>to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ 247,406
<u>Adjustments to Reconcile Net Operating</u> <u>Income to Net Cash Provided by</u> <u>Operating Activities</u>	
Depreciation	\$ 236,542
Change in Assets & Liabilities:	
(Increase) Decrease in Accounts Receivable	1,235
(Increase) Decrease in Prepaid Expenses	390
(Increase) Decrease in Inventory	(88)
Increase (Decrease) in Accounts Payable	
- Maintenance Fund	(2,255)
Increase (Decrease) in Vested Benefits	<u>3,700</u>
Total Adjustments	<u>\$ 239,524</u>
 Net Cash Provided by Operating Activities	 <u>\$ 486,930</u>

See accompanying notes and accountant's report.

Highland Water District
Notes to Financial Statements
December 31, 2010

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 with the exception that interest income on assessments is recorded as received. This exception is not in accordance with generally accepted accounting principles. 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.

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

Highland Water District
Notes to Financial Statements
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Basis of Accounting and Presentation (Continued)

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

Utility plant in service is recorded at cost. The District uses a capitalization threshold of \$1,000. 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, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction and debt service requirements.

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.

Highland Water District
Notes to Financial Statements
December 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 May 4, 2011, 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.

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

	<u>12/31/10</u>
Petty Cash Fund	\$ 422
Bank Deposit Accounts - FDIC Insured	92,482
Cash on Deposit with Snohomish County Treasurer	25,492
Investment in State Investment Pool	<u>379,435</u>
Total Cash & Investments	<u>\$ 497,831</u>

Highland Water District
Notes to Financial Statements
December 31, 2010

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2010 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
Construction in Progress	-	-	-	-
<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	11,469,320	265	-	11,469,585
Machinery & Equipment	83,974	-	-	83,974
Intangibles	182,581	-	-	182,581
<u>Total capital assets being depreciated</u>	<u>11,735,875</u>	<u>265</u>	<u>-</u>	<u>11,736,140</u>
Less accumulated depreciation for:				
Plant	1,701,199	209,988	-	1,911,187
Machinery & Equipment	46,231	6,663	-	52,894
Intangibles	129,411	19,891	-	149,302
<u>Total accumulated depreciation</u>	<u>1,876,841</u>	<u>236,542</u>	<u>-</u>	<u>2,113,383</u>
<u>Total capital assets being depreciated, net</u>	<u>9,859,034</u>	<u>(236,277)</u>	<u>-</u>	<u>9,622,757</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 9,958,181</u>	<u>\$ (236,277)</u>	<u>\$ -</u>	<u>\$ 9,721,904</u>

Highland Water District
Notes to Financial Statements
December 31, 2010

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>2010</u>
1996 loan - payable at \$1,826 monthly (including interest at 5.5% per annum) through the year 2036	\$ 300,037
2003 loan - payable at \$29,858 annually (including interest at 4.625% per annum) through the year 2027	339,266
2003 loan - payable at \$27,016 annually (including interest at 4.5% per annum) through the year 2023	247,068
2009 loan - payable at \$161,551 annually (including interest at 4.25% per annum) through the year 2049	<u>3,051,000</u>
	<u>\$ 3,937,371</u>

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2010, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 67,134	\$ 173,203	\$ 240,337
2012	70,170	170,168	240,338
2013	73,343	166,994	240,337
2014	76,662	163,675	240,337
2015	80,131	160,206	240,337
2016 - 2020	458,501	743,185	1,201,686
2021 - 2025	488,972	632,941	1,121,913
2026 - 2030	442,869	525,788	968,657
2031 - 2035	492,064	425,251	917,315
2036 - 2040	501,804	316,627	818,431
2041 - 2045	604,954	202,801	807,755
2046 - 2049	<u>580,767</u>	<u>62,930</u>	<u>643,697</u>
	<u>\$ 3,937,371</u>	<u>\$ 3,743,769</u>	<u>\$ 7,681,140</u>

Highland Water District
Notes to Financial Statements
December 31, 2010

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>2010</u>
2000 loan - payable at \$4,931 annually through the year 2020, plus interest at .5% per annum	\$ 49,312
2000 loan - payable at \$8,644 annually through the year 2020, plus interest at .5% per annum	86,444
2002 loan - payable at \$73,786 annually through the year 2022, plus interest at .5% per annum	885,429
2004 loan - payable at \$17,671 annually through the year 2024, plus interest at .5% per annum	247,395
2005 loan - payable at \$20,500 annually through the year 2011. The interest rate is 0%.	20,500
2005 loan - payable at \$14,122 annually through the year 2025, plus interest at 2% per annum	211,830
2005 loan - payable at \$30,197 annually through the year 2025, plus interest at .5% per annum	<u>452,961</u>
	<u>\$ 1,953,871</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2010, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 169,852	\$ 12,844	\$ 182,696
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 - 2020	746,758	30,671	777,429
2021 - 2025	<u>439,853</u>	<u>8,492</u>	<u>448,345</u>
	<u>\$ 1,953,871</u>	<u>\$ 93,799</u>	<u>\$ 2,047,670</u>

Highland Water District
Notes to Financial Statements
December 31, 2010

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 \$ 449,655

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2010, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 56,207	\$ 17,986	\$ 74,193
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 - 2019	<u>168,620</u>	<u>13,490</u>	<u>182,110</u>
	<u>\$ 449,655</u>	<u>\$ 80,938</u>	<u>\$ 530,593</u>

d. Changes in Long-Term Debt

During the year ended December 31, 2010, 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>1/1/10</u>				<u>12/31/10</u>	<u>One Year</u>
U.S. Department of Agriculture Loans	\$ 3,971,593	\$ -	\$ 34,222	\$ 3,937,371	\$ 3,937,371	\$ 67,134
Public Works Trust Fund Loans	2,123,722	-	169,851	1,953,871	1,953,871	169,852
Drinking Water State Revolving Fund Loan	<u>505,861</u>	<u>-</u>	<u>56,206</u>	<u>449,655</u>	<u>449,655</u>	<u>56,207</u>
Total Long-Term Debt	<u>\$ 6,601,176</u>	<u>\$ -</u>	<u>\$ 260,279</u>	<u>\$ 6,340,897</u>	<u>\$ 6,340,897</u>	<u>\$ 293,193</u>

Highland Water District
Notes to Financial Statements
December 31, 2010

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 \$3,759 in 2010.

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, 2010, there are 451 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,

Highland Water District
Notes to Financial Statements
December 31, 2010

NOTE 6 - RISK MANAGEMENT (Continued)

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.

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

\$750,000 deductible on liability loss (9/1/09 - 12/31/09) - the member is responsible for the first \$1,000 of the deductible amount of each claim, while Enduris is responsible for the remaining \$749,000 on liability loss; \$1,000,000 deductible on liability loss (1/1/10 - 8/31/10) - 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.



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
Chief Policy Advisor
Director of Audit
Director of Performance Audit
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Director for Legal Affairs
Director of Quality Assurance
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