

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

---

**Highland Water District**  
**Snohomish County**

Audit Period  
January 1, 2012 through December 31, 2012

Report No. 1009944

Issue Date  
June 17, 2013



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

June 17, 2013

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,

**TROY KELLEY**  
STATE AUDITOR

# Table of Contents

**Highland Water District  
Snohomish County  
January 1, 2012 through December 31, 2012**

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, 2012 through December 31, 2012**

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, 2012, and have issued our report thereon dated April 18, 2013.

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.

## **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.



**TROY KELLEY**  
STATE AUDITOR

April 18, 2013

# **Independent Auditor's Report on Financial Statements**

**Highland Water District  
Snohomish County  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Highland Water District  
Monroe, Washington

## ***REPORT ON THE FINANCIAL STATEMENTS***

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, 2012, as listed on page 5.

### ***Management's Responsibility 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; this includes 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.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2012, 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.

### **Other Matters**

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 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 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.



**TROY KELLEY**  
STATE AUDITOR

April 18, 2013

# **Financial Section**

**Highland Water District  
Snohomish County  
January 1, 2012 through December 31, 2012**

## ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012

## ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – 2012

Statement of Cash Flows – 2012

Notes to Financial Statements – 2012



Highland Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2012

---

**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, 2012. 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>2012</u>	<u>2011</u>
<b><u>Assets</u></b>		
Current Assets	\$ 661,662	\$ 643,743
Noncurrent Assets:		
Capital Assets - Net	9,268,519	9,489,270
Other	<u>441,259</u>	<u>422,013</u>
Total Assets	<u>\$ 10,371,440</u>	<u>\$ 10,555,026</u>
<b><u>Liabilities</u></b>		
Current Liabilities	\$ 389,127	\$ 387,951
Noncurrent Liabilities:		
Long-Term Debt	5,479,902	5,758,636
Other	<u>8,283</u>	<u>8,282</u>
Total Liabilities	<u>\$ 5,877,312</u>	<u>\$ 6,154,869</u>
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	\$ 3,509,355	\$ 3,453,090
Restricted for Debt Service	555,390	512,495
Restricted for Capital Projects	27,646	27,619
Unrestricted	<u>401,737</u>	<u>406,953</u>
Total Net Position	<u>\$ 4,494,128</u>	<u>\$ 4,400,157</u>

Highland Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2012

---

**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 funds decreased by \$17,323 in 2012. 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 \$22,595 in 2012. 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 \$19,246. This change was a combination of a decrease from payments received on the assessments and an increase due to a prior period adjustment. See the prior period adjustment discussion below. Noncurrent assets also include capital assets net of accumulated depreciation.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt and the current portion of long-term debt. These items increased \$1,176 in 2012.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by \$278,734 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 2012 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.

**Prior Period Adjustment**

The prior period adjustment increased the Friar Creek assessments receivable by \$45,939. The adjustment was to restore assessments receivable amounts after reinterpretation of resolutions in past years that changed the payment amounts of the assessments.

Highland Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2012

---

**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>2012</u>	<u>2011</u>
<b><u>Revenues</u></b>		
Water Operating Revenue	\$ 950,342	\$ 949,346
Interest Income	<u>23,117</u>	<u>21,639</u>
Total Revenues	<u>\$ 973,459</u>	<u>\$ 970,985</u>
<b><u>Expenses</u></b>		
Operating Expenses	\$ 730,374	\$ 713,722
Nonoperating Expenses	<u>195,053</u>	<u>201,442</u>
Total Expenses	<u>\$ 925,427</u>	<u>\$ 915,164</u>
Change in Net Position before Capital Contributions	\$ 48,032	\$ 55,821
Capital Contributions	<u>-</u>	<u>84,246</u>
Change in Net Position	48,032	140,067
<b><u>Total Net Position, January 1</u></b>	\$ 4,400,157	\$ 4,260,090
Prior Period Adjustment	<u>45,939</u>	<u>-</u>
Total Net Position, January 1, as Restated	<u>\$ 4,446,096</u>	<u>\$ 4,260,090</u>
<b><u>Total Net Position, December 31</u></b>	<u>\$ 4,494,128</u>	<u>\$ 4,400,157</u>

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

**Revenues**

Water operating revenue increased by \$996 in 2012. Nonoperating revenue, which is interest income from investments, increased by \$1,478 in 2012.

**Expenses**

Operating expenses increased by \$16,652 in 2012. The increase was mostly due to increased field labor of \$17,890 as a result of increased field staffing, increased backup service charges of \$7,004, and increased water purchases of \$14,469. These increases were offset by a decrease in administrative wages of \$48,809 as a result of a decrease in the administrative staffing toward the end of 2011.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by \$6,389 in 2012 due to a decreasing outstanding loan balance through 2012 as the District paid down its debt. No new borrowings occurred in 2012.

Highland Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2012

---

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

Capital Contributions decreased by \$84,246 in 2012. The decrease was a result of a reduction in new construction activity in the District.

**Change in Net Position**

The District recorded growth in their net position in 2012, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District's financial condition improved in 2012 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 2012. 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, 2012 was as follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Balance</u> <u>12/31/11</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>(2,566,768)</u>	<u>(2,346,017)</u>	<u>(220,751)</u>
Total Capital Assets, Net	<u>\$ 9,268,519</u>	<u>\$ 9,489,270</u>	<u>\$ (220,751)</u>

**Long-Term Debt**

At December 31, 2012, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of \$1,971,907, and total United States Department of Agriculture loans outstanding of \$3,799,337. The total long-term debt of the District decreased by \$278,734 during 2012 due to principal payments made on the loans.

Highland Water District  
Statement of Net Position  
December 31, 2012

---

	<u>2012</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Maintenance Fund:	
Cash & Cash Equivalents	\$ 161,038
Accrued Interest Receivable	12
Construction Fund:	
Cash & Cash Equivalents	219,562
Accrued Interest Receivable	561
Receivables (Net):	
Customer Accounts Receivable	99,452
Restricted Assets:	
Cash & Cash Equivalents - Other	27,646
USDA Reserve Funds:	
Cash & Cash Equivalents	101,985
Accrued Interest Receivable	21
Assessments Receivable - Friar Creek - Current Portion	12,125
Inventories	28,969
Prepayments	10,281
Due from Developers	<u>10</u>
 Total Current Assets	 \$ <u>661,662</u>
 <u>Noncurrent Assets</u>	
Restricted Assets:	
U.L.I.D. Assessments Receivable	\$ 14,309
Assessments Receivable - Friar Creek (Net of Current Portion)	426,950
Capital Assets (Net)	<u>9,268,519</u>
 Total Noncurrent Assets	 \$ <u>9,709,778</u>
 Total Assets	 \$ <u>10,371,440</u>

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

Highland Water District  
Statement of Net Position  
December 31, 2012

---

	<u>2012</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 11,946
Accrued Wages	5,916
Accrued Interest Payable	8,836
Current Portion of Long-Term Debt	279,272
Payables from Restricted Assets:	
Accrued Interest Payable - USDA Loans	<u>83,157</u>
Total Current Liabilities	<u>\$ 389,127</u>
 <u>Noncurrent Liabilities</u>	
Department of Agriculture Loans	\$ 3,725,624
Public Works Trust Fund Loans	1,485,314
State Revolving Fund Loan	281,034
Less Deferred Charges	(12,070)
Vested Benefits	<u>8,283</u>
Total Noncurrent Liabilities	<u>\$ 5,488,185</u>
Total Liabilities	<u>\$ 5,877,312</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 3,509,355
Restricted for Debt Service	555,390
Restricted for Capital Projects	27,646
Unrestricted	<u>401,737</u>
Total Net Position	<u>\$ 4,494,128</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, 2012

---

	<u>2012</u>
<u>Operating Revenues</u>	
Water Sales	\$ 934,391
Penalties	13,370
Miscellaneous Revenue	<u>2,581</u>
Total Operating Revenues	\$ 950,342
<u>Operating Expenses</u>	
Water Purchases	\$ 122,378
Labor Costs	145,209
Payroll Taxes & Benefits	48,975
System Maintenance and Supplies	11,019
Other Operating Expenses	33,019
Depreciation Expense	220,751
Business Taxes	48,894
General & Administrative Expenses	<u>100,129</u>
Total Operating Expenses	\$ <u>730,374</u>
Operating Income (Loss)	\$ 219,968
<u>Nonoperating Revenues (Expenses)</u>	
Interest on Investments	\$ 23,117
Interest Expense	<u>(195,053)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(171,936)</u>
Change in Net Position	\$ 48,032
<u>Total Net Position, January 1</u>	\$ 4,400,157
Prior Period Adjustment	<u>45,939</u>
Total Net Position, January 1, as Restated	\$ <u>4,446,096</u>
<u>Total Net Position, December 31</u>	<u>\$ 4,494,128</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, 2012

---

	<u>2012</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 941,405
Cash Paid to Suppliers	(324,686)
Cash Paid to Employees	<u>(185,729)</u>
Net Cash Provided by Operating Activities	<u>\$ 430,990</u>
<u>Cash Flows From Capital &amp; Related Financing Activities</u>	
Principal Payments on Public Works Trust Fund Loans	\$ (149,353)
Principal Payments on State Revolving Fund Loan	(56,207)
Principal Payments on Dept. of Agriculture Loans	(69,998)
Interest Paid on Long-Term Debt	(197,899)
Capital Contributions	25,624
Developer & Other Deposits	<u>(1,458)</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (449,291)</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 23,573</u>
Net Cash Provided by Investing Activities	<u>\$ 23,573</u>
Net Increase in Cash & Cash Equivalents	\$ 5,272
Cash & Cash Equivalents at Beginning of Year	<u>504,959</u>
Cash & Cash Equivalents at End of Year	<u><u>\$ 510,231</u></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, 2012

---

	<u>2012</u>
<u>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ 219,968
<u>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities</u>	
Depreciation	\$ 220,751
Change in Assets & Liabilities:	
(Increase) Decrease in Customer Accounts Receivable	(8,937)
(Increase) Decrease in Prepayments	(1,132)
(Increase) Decrease in Inventories	(1,955)
Increase (Decrease) in Accounts Payable	2,294
Increase (Decrease) in Vested Benefits	<u>1</u>
Total Adjustments	<u>\$ 211,022</u>
 Net Cash Provided by Operating Activities	 <u>\$ 430,990</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, 2012

---

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, 2012

---

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, 2012

---

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 the date of the audit report.

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, 2012

---

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

	<u>12/31/12</u>
Petty Cash Fund	\$ 450
Bank Deposit Accounts - FDIC Insured	116,148
Cash on Deposit with Snohomish County Treasurer	29,300
Investment in State Investment Pool	<u>364,333</u>
Total Cash & Investments	<u>\$ 510,231</u>

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012 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	2,121,169	204,212	-	2,325,381
Equipment	58,559	5,059	-	63,618
Intangibles	<u>166,289</u>	<u>11,480</u>	<u>-</u>	<u>177,769</u>
<u>Total accumulated depreciation</u>	<u>2,346,017</u>	<u>220,751</u>	<u>-</u>	<u>2,566,768</u>
<u>Total capital assets being depreciated, net</u>	<u>9,390,123</u>	<u>(220,751)</u>	<u>-</u>	<u>9,169,372</u>
<b><u>TOTAL CAPITAL ASSETS, NET</u></b>	<b><u>\$ 9,489,270</u></b>	<b><u>\$ (220,751)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 9,268,519</u></b>

Highland Water District  
Notes to Financial Statements  
Year Ended December 31, 2012

---

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>2012</u>
1996 loan - payable at \$1,826 monthly (including interest at 5.5% per annum) through the year 2036	\$ 288,625
2003 loan - payable at \$29,858 annually (including interest at 4.625% per annum) through the year 2027	310,277
2003 loan - payable at \$27,016 annually (including interest at 4.5% per annum) through the year 2023	214,557
2009 loan - payable at \$161,551 annually (including interest at 4.25% per annum) through the year 2049	<u>2,985,878</u>
	<u>\$ 3,799,337</u>

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2012, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	87,926	152,411	240,337
2018 - 2022	502,847	698,839	1,201,686
2023 - 2027	465,820	586,997	1,052,817
2028 - 2032	431,101	486,213	917,314
2033 - 2037	503,030	381,136	884,166
2038 - 2042	533,942	273,813	807,755
2043 - 2047	657,468	150,288	807,756
2048 - 2049	<u>301,818</u>	<u>19,334</u>	<u>321,152</u>
	<u>\$ 3,799,337</u>	<u>\$ 3,394,994</u>	<u>\$ 7,194,331</u>

Highland Water District  
Notes to Financial Statements  
Year Ended December 31, 2012

---

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>2012</u>
2000 loan - payable at \$4,931 annually through the year 2020, plus interest at .5% per annum	\$ 39,449
2000 loan - payable at \$8,644 annually through the year 2020, plus interest at .5% per annum	69,155
2002 loan - payable at \$73,786 annually through the year 2022, plus interest at .5% per annum	737,857
2004 loan - payable at \$17,671 annually through the year 2024, plus interest at .5% per annum	212,053
2005 loan - payable at \$14,122 annually through the year 2025, plus interest at 2% per annum	183,586
2005 loan - payable at \$30,197 annually through the year 2025, plus interest at .5% per annum	<u>392,566</u>
	<u>\$ 1,634,666</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2012, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	149,352	7,093	156,445
2018 - 2022	719,606	21,153	740,759
2023 - 2025	<u>168,300</u>	<u>2,866</u>	<u>171,166</u>
	<u>\$ 1,634,666</u>	<u>\$ 69,069</u>	<u>\$ 1,703,735</u>

Highland Water District  
Notes to Financial Statements  
Year Ended December 31, 2012

---

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 \$ 337,241

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2012, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	56,207	4,497	60,704
2018	<u>56,206</u>	<u>2,248</u>	<u>58,454</u>
	<u>\$ 337,241</u>	<u>\$ 47,214</u>	<u>\$ 384,455</u>

d. Changes in Long-Term Debt

During the year ended December 31, 2012, the following changes occurred in long-term debt:

	<u>Balance</u> <u>1/1/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/12</u>	<u>Due Within</u> <u>One Year</u>
U.S. Department of Agriculture Loans	\$ 3,869,874	\$ -	\$ 70,537	\$ 3,799,337	\$ 73,713
Public Works Trust Fund Loans	1,784,019	-	149,353	1,634,666	149,352
Drinking Water State Revolving Fund Loan	<u>393,448</u>	<u>-</u>	<u>56,207</u>	<u>337,241</u>	<u>56,207</u>
Total Long-Term Debt	<u>\$ 6,047,341</u>	<u>\$ -</u>	<u>\$ 276,097</u>	<u>\$ 5,771,244</u>	<u>\$ 279,272</u>



Highland Water District  
Notes to Financial Statements  
Year Ended December 31, 2012

---

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 \$6,185 in 2012.

As of January 1, 2011, the actuarial value of the assets in the Pension Trust fund was \$32,880,990,000, the value of the liabilities was \$35,729,226,000, and the funded ratio was 92.0%. The market value of the fund on December 31, 2011 was \$29,879,068,991. As of December 31, 2011, the asset allocation of the fund's assets were as follow: 21.29% US Government securities, 20.33% corporate debt instruments, 5.74% corporate stocks, 8.54% partnership/joint venture interests, 6.96% real estate, 0.19% loans, 27.78% common/collective trusts, 4.78% pooled separate accounts, 0.46% funds held in insurance company general account, 0.04% building and other property used in the fund's operations, -.02% interest bearing cash, 2.39% value of interest in 103-102 investment entities, 1.52% other.

NOTE 6 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2012, there are 477 Enduris members representing a broad array of special purpose districts throughout the state.

Enduris members share in the self-insured retention, jointly purchase excess and/or reinsurance coverage and provide risk management services and other related administrative services. Enduris provides "per occurrence" based policies for all lines of liability coverage including Public Official's Liability. The Property coverage is written on an "all risk", blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and 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, 2012

---

Members make an annual contribution to fund Enduris. Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis:

\$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 - PRIOR PERIOD ADJUSTMENT**

The prior period adjustment increased the Friar Creek assessments receivable by \$45,939. The adjustment was to restore assessments receivable amounts after reinterpretation of resolutions in past years that changed the payment amounts of the assessments.



## **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.

**State Auditor**  
**Chief of Staff**  
**Director of State and Local Audit**  
**Director of Performance Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Barb Hinton**  
**Mike Murphy**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Website**  
**Subscription Service**

**[www.sao.wa.gov](http://www.sao.wa.gov)**  
**<https://www.sao.wa.gov/EN/News/Subscriptions>**