To the Board of Commissioners

Highland Water District

Monroe, Washington

Management is responsible for the accompanying financial statements of Highland Water District, which comprise the statement of net position as of December 31, 2018 and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 1 through 4 and the pension plan information on Schedule I be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis and, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

C.P. McAuliffe, C.P.A.

C.P. McAuliffe, C.P.A., P.S.

Certified Public Accountants

May 7, 2019

Highland Water District

Table of Contents

December 31, 2018

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Page

Accountant’s Report

Management’s Discussion and Analysis 1 - 4

Statement of Net Position 5 - 6

Statement of Revenues, Expenses and Changes in Fund Net Position 7

Statement of Cash Flows 8 - 9

Notes to Financial Statements 10 - 19

Supplementary Information 20

**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, 2018. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**Condensed Comparative Statement of Net Position**

The following condensed statements of net position present an overview of the District’s financial position as of December 31, 2018 and 2017.

2018 2017

**Assets**

Current Assets $ 1,644,944 $ 1,397,014

Noncurrent Assets:

Capital Assets - Net 8,158,145 8,365,196

Other 326,906 346,791

Total Assets $ 10,129,995 $ 10,109,001

**Liabilities**

Current Liabilities $ 402,352 $ 438,827

Noncurrent Liabilities:

Long-Term Debt 3,797,302 4,042,686

Other 15,081 15,004

Total Liabilities $ 4,214,735 $ 4,496,517

**Net Position**

Net Investment in Capital Assets $ 4,095,714 $ 4,005,320

Restricted for Debt Service 184,721 164,968

Restricted for Capital Projects - -

Unrestricted 1,634,825 1,442,196

Total Net Position $ 5,915,260 $ 5,612,484

**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 increased by $219,740 in 2018. 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 $17,603 in 2018. The remainder of the current assets include accounts receivable, accrued interest receivable, prepaid expenses, inventories, amounts due from developers, and the current portion of the Friar Creek assessments receivable. Together these accounts increased by $10,587 in 2018.

Noncurrent Assets include U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items decreased by $19,885 due to the principal collections received in 2018. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts decreased by $207,051 primarily due to the 2018 depreciation expense on these items, as well as the disposal of a truck.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt, developer deposits, and the current portion of long-term debt. These items decreased by $36,475 in 2018 mainly due to a decrease in the current portion of long-term debt of $52,061 as a result of the final payoff of the Drinking Water State Revolving Fund Loan. This was offset by an increase in account payable of $17,908 due to the timing of water purchase invoices, as well as an increase in rates by the City of Everett and in increase in the number of customers using water.

Noncurrent Liabilities consist of compensated absences and long-term debt. Long-term debt decreased by $245,384 in 2018. This decrease was 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 2018 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.

**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):

2018 2017

**Revenues**

Water Operating Revenue $ 1,289,603 $ 1,268,370

Nonoperating Revenues 40,824 26,835

Total Revenues $ 1,330,427 $ 1,295,205

**Expenses**

Operating Expenses $ 916,353 $ 809,950

Nonoperating Expenses 153,448 160,711

Total Expenses $ 1,069,801 $ 970,661

Change in Net Position before

Capital Contributions $ 260,626 $ 324,544

Capital Contributions 42,150 35,324

Change in Net Position $ 302,776 $ 359,868

**Total Net Position, January 1** 5,612,484 5,252,616

**Total Net Position, December 31** $ 5,915,260 $ 5,612,484

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

Revenues

Water operating revenue increased by $21,233 in 2018 mainly due to an increase of $25,100 in local facility charges as a result of a higher number of hook ups in 2018. Nonoperating revenue is made up of interest income and gains on the disposal of assets. Interest income from investments increased by $10,485. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District’s investments.

Expenses

Operating expenses increased by $106,403 in 2018 mainly due to an increase of $75,700 in water purchases. This was caused by an increase in the use charges by the City of Everett, as well as an increase in total usage as a result of an increase in customers in the District.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $7,263 in 2018 due to decreasing outstanding loan balances through 2018 as the District paid down its debt. No new borrowings occurred in 2018.

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

Capital Contributions increased by $6,826 in 2018.

Change in Net Position

The District recorded growth in their net position in 2018, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2018 with adequate liquid assets and positive operating cash flow.

**Capital Assets**

Capital assets consist of land, utility plant and equipment. Over the next five years it is anticipated that capital spending will be in the range of $1,917,000. The area of major emphasis in the capital budget is the Woods Lake Road replacement project.

Capital assets activity for the year ended December 31, 2018 was as follows:

Balance Balance

12/31/18 12/31/17 Change

Land $ 99,147 $ 99,147 $ -

Utility Plant 11,417,642 11,419,112 (1,470)

Equipment 96,029 115,682 (19,653)

Intangibles 89,763 89,763 -

Accumulated Depreciation (3,544,436) (3,358,508) (185,928)

Total Capital Assets, Net $ 8,158,145 $ 8,365,196 $ (207,051)

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2018, the District had total Public Works Trust Fund loans outstanding of $738,556, and total United States Department of Agriculture loans outstanding of $3,304,136. The total long-term debt of the District decreased by $297,445 during 2018 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

2018

ASSETS

Current Assets

Cash & Cash Equivalents $ 1,229,401

Accrued Interest Receivable 1,929

Assessments Receivable - Friar Creek (Current Portion) 10,607

Receivables (Net):

Customer Accounts Receivable 109,865

Restricted Assets:

Cash & Cash Equivalents 247,087

Accrued Interest Receivable 1,238

Inventories 31,197

Prepayments 12,850

Due from Developers 770

Total Current Assets $ 1,644,944

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 319,998

Restricted Assets:

U.L.I.D. Assessments Receivable 6,908

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 11,417,642

Equipment 96,029

Intangibles 89,763

Less Accumulated Depreciation (3,544,436)

Total Noncurrent Assets $ 8,485,051

Total Assets $ 10,129,995

2018

LIABILITIES

Current Liabilities

Accounts Payable $ 56,210

Accrued Wages 7,913

Accrued Interest Payable 2,588

Current Portion of Long-Term Debt 245,390

Developer Maintenance Bond Payable 19,739

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 70,512

Total Current Liabilities $ 402,352

Noncurrent Liabilities

Department of Agriculture Loans $ 3,208,098

Public Works Trust Fund Loans 589,204

Compensated Absences 15,081

Total Noncurrent Liabilities $ 3,812,383

Total Liabilities $ 4,214,735

NET POSITION

Net Investment in Capital Assets $ 4,095,714

Restricted for Debt Service 184,721

Unrestricted 1,634,825

Total Net Position $ 5,915,260

2018

Operating Revenues

Water Sales $ 1,240,258

Local Facility Charges 32,100

Penalties 12,911

Miscellaneous Revenue 4,334

Total Operating Revenues $ 1,289,603

Operating Expenses

Water Purchases $ 220,379

Labor Costs 188,091

Payroll Taxes & Benefits 61,630

System Maintenance and Supplies 29,387

Other Operating Expenses 22,511

Depreciation Expense 206,963

Business Taxes 64,383

General & Administrative Expenses 123,009

Total Operating Expenses $ 916,353

Operating Income (Loss) $ 373,250

Nonoperating Revenues (Expenses)

Interest on Investments $ 37,320

Gain (Loss) on Disposal of Assets 3,504

Interest Expense (153,448)

Total Nonoperating Revenues (Expenses) $ (112,624)

Income Before Contributions $ 260,626

Capital Contributions 42,150

Change in Net Position $ 302,776

Total Net Position, January 1 5,612,484

Total Net Position, December 31 $ 5,915,260

2018

Cash Flows From Operating Activities

Cash Received From Customers $ 1,282,719

Cash Paid to Suppliers (459,736)

Cash Paid to Employees (231,905)

Net Cash Provided by Operating Activities $ 591,078

Cash Flows From Capital & Related

Financing Activities

Acquisition and Construction of Capital Assets $ -

Proceeds from Sale of Capital Assets 3,591

Principal Payments on Public Works

Trust Fund Loans (149,351)

Principal Payments on State Revolving Fund Loan (56,207)

Principal Payments on Dept. of Agriculture Loans (91,887)

Interest Paid on Long-Term Debt (156,831)

Capital Contributions 61,771

Developer & Other Deposits (770)

Net Cash (Used) by Capital

& Related Financing Activities $ (389,684)

Cash Flows From Investing Activities

Interest Received on Investments $ 35,949

Net Cash Provided by Investing Activities $ 35,949

Net Increase in Cash & Cash Equivalents $ 237,343

Cash & Cash Equivalents at Beginning of Year 1,239,145

Cash & Cash Equivalents at End of Year $ 1,476,488

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

Book Value of Plant Removals $ 87

2018

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 373,250

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 206,963

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (6,884)

(Increase) Decrease in Prepayments (1,418)

(Increase) Decrease in Inventories 120

Increase (Decrease) in Accounts Payable 18,970

Increase (Decrease) in Vested Benefits 77

Total Adjustments $ 217,828

Net Cash Provided by Operating Activities $ 591,078

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. All activities of the District are accounted for within a single proprietary (enterprise) fund.

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.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 held 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.

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.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 7, 2019, 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.

12/31/18

Petty Cash Fund $ 433

Bank Deposit Accounts - FDIC Insured 260,743

Cash on Deposit with Snohomish

County Treasurer 61,529

Investment in Local Governmental

Investment Pool (LGIP) 1,153,783

Total Cash & Investments $ 1,476,488

Credit risk - As of December 31, 2018, the District’s investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSPO).

Interest rate risk - The Pool is a 2a-7 like pool. Consequently, the District’s investments in the Pool are not subject to interest rate risk as the weighted average maturity of the Pool’s portfolio will not exceed 90 days.

The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

**Investments in Local Government Investment Pool (LGIP)**

The District is a participant in the Local Governmental Investment Pool which was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts the rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually, and proposed changes are reviewed by the LGIP advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at http://www.tre.wa/gov.

**Investments Measured at Fair Value**

The District measures and reports investments at fair market value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

* Level 1: Quoted prices in active markets for identical assets or liabilities;
* Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
* Level 3: Unobservable inputs for an asset or liability.

At December 31, 2018, the District had the following investments measured at fair value:

* Investments in Local Governmental Investment Pool are valued using quoted market prices

(Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018 was as follows:

Beginning Ending

Balance Increase Decrease Balance

Capital assets not being depreciated:

Land $ 99,147 $ - $ - $ 99,147

Total capital assets not

being depreciated 99,147 - - 99,147

Capital assets being depreciated:

Plant 11,419,112 - (1,470) 11,417,642

Equipment 115,682 - (19,653) 96,029

Intangibles 89,763 - - 89,763

Total capital assets being

depreciated 11,624,557 - (21,123) 11,603,434

Less accumulated depreciation for:

Plant 3,233,273 189,573 (1,382) 3,421,464

Equipment 73,638 5,094 (19,653) 59,079

Intangibles 51,597 12,296 - 63,893

Total accumulated

depreciation 3,358,508 206,963 (21,035) 3,544,436

Total capital assets being

depreciated, net 8,266,049 (206,963) (88) 8,058,998

TOTAL CAPITAL

ASSETS, NET $ 8,365,196 $ (206,963) $ (88) $ 8,158,145

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total $1,917,197. Of the committed balance of $1,917,197, the District anticipates raising $1,737,197 by future DWSRF loans.

Project Expended Required

Authorization to 12/31/18 Committed Future Financing

Telemetry & Security $ 150,000 $ - $ 150,000 $ -

Woods Lake Rd project 1,767,197 - 1,767,197 1,737,197

$ 1,917,197 $ - $ 1,917,197 $ 1,737,197

NOTE 5 - 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:

2018

1996 loan - payable at $1,826 monthly (including

interest at 5.5% per annum) through the year 2036

Original debt: $353,858 for main replacement. $ 245,814

2003 loan - payable at $29,858 annually (including

interest at 4.625% per annum) through the year 2027

Original debt: $471,530 for main replacement. 205,786

2003 loan - payable at $27,016 annually (including

interest at 4.5% per annum) through the year 2023

Original debt: $355,503 for main replacement. 97,945

2009 loan - payable at $161,551 annually (including

interest at 4.25% per annum) through the year 2049

Original debt: $3,051,000 for main replacement. 2,754,591

$ 3,304,136

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2018, including interest, are as follows:

Principal Interest Total

2019 $ 96,038 $ 144,299 $ 240,337

2020 100,372 139,965 240,337

2021 104,903 135,434 240,337

2022 109,641 130,696 240,337

2023 88,853 125,744 214,597

2024 - 2028 455,766 565,917 1,021,683

2029 - 2033 450,521 466,794 917,315

2034 - 2038 502,900 359,354 862,254

2039 - 2043 556,634 251,121 807,755

2044 - 2048 685,410 122,345 807,755

2049 153,098 6,506 159,604

$ 3,304,136 $ 2,448,175 $ 5,752,311

NOTE 5 - 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:

2018

2000 loan - payable at $4,931 annually through

the year 2020, plus interest at .5% per annum

Original debt: $124,430 for main replacement $ 9,862

2000 loan - payable at $8,644 annually through

the year 2020, plus interest at .5% per annum

Original debt: $229,755 for main replacement 17,289

2002 loan - payable at $73,786 annually through

the year 2022, plus interest at .5% per annum

Original debt: $1,530,000 for main replacement 295,143

2004 loan - payable at $17,671 annually through

the year 2024, plus interest at .5% per annum

Original debt: $335,750 for Reservoir 2 preconstruction 106,026

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 98,854

2005 loan - payable at $30,197 annually through

the year 2025, plus interest at .5% per annum

Original debt: $573,750 for Reservoir 2 211,382

$ 738,556

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2018, including interest, are as follows:

Principal Interest Total

2019 $ 149,352 $ 5,176 $ 154,528

2020 149,352 4,217 153,569

2021 135,776 3,258 139,034

2022 135,776 2,368 138,144

2023 61,990 1,477 63,467

2024 - 2025 106,310 2,866 109,176

$ 738,556 $ 19,362 $ 757,918

NOTE 5 - LONG-TERM DEBT (Continued)

c. Changes in Long-Term Liabilities

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

Balance Balance Due Within

1/1/18 Additions Reductions 12/31/18 One Year

U.S. Department of

Agriculture Loans $ 3,396,023 $ - $ (91,887) $ 3,304,136 $ 96,038

Public Works Trust

Fund Loans 887,907 - (149,351) 738,556 149,352

Drinking Water

State Revolving

Fund Loan 56,207 - (56,207) - -

Compensated

Absences 15,004 77 - 15,081 -

Total Long-Term

Liabilities $ 4,355,141 $ 77 $ (297,445) $ 4,057,773 $ 245,390

NOTE 6 - PENSION PLAN

All District employees covered by a collective bargaining agreement are members of the Western Conference of Teamsters Pension Trust fund, a cost-sharing multiple employer union pension plan. The plan provides for retirement, death and/or termination benefits for eligible employees, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in this multiemployer plan are different from a single-employer plan in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If the District chooses to stop participating in the plan, the District may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

NOTE 6 - PENSION PLAN (Continued)

Effective January 1, 2018, the District made pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all three covered employees at the rate of $1.00 per hour for the first 2,080 hours. In addition to the $1.00 per hour contributed by the District, the covered employees contributed $1.25 per hour on a pre-tax basis from their pay. The District’s total contributions to the Trust Fund were $6,240 in 2018, $4,215 in 2017, and $4,680 in 2016. The District contributed 100% of the required amount in each of these years. There is no unfunded liability on the District’s part. The collective bargaining agreement covers the period of January 1, 2018 through December 31, 2020.

As of January 1, 2018, the actuarial value of the assets in the Pension Trust fund was $40,212,390,000, the value of the liabilities was $43,770,547,000 and the funded ratio was 91.9%. The market value of the fund on December 31, 2018 was $40,217,781,653. As of December 31, 2018, the asset allocation of the fund’s assets were as follow: 40.5% Stocks, 27.9% Investment grade debt instruments, 8.1% High-yield debt instruments, 11.8% Real Estate, 11.7% Other.

NOTE 7 - 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, 2018, there are 549 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund Enduris and share in the self-insured retention of the jointly purchased excess and/or reinsurance coverage. The self-insured retention is:

* $1,000,000 self-insured retention on liability loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $999,000 on a liability loss.
* $250,000 self-insured retention on property loss - the member is responsible for the first $1,000 of the amount of each claim, while Enduris is responsible for the remaining $249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first $4,000 of the claim.

NOTE 7 - RISK MANAGEMENT (Continued)

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is 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, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

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 contribution 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. The Pool’s 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.

Enduris did not have any claim settlements that exceeded limits in the last three years.

For years ending December 31, 2016, 2017, and 2018, the District had no claims in excess of its insurance coverage.

NOTE 8 - 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.

SUPPLEMENTARY INFORMATION



**Notes to Supplementary Schedule I**

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2: Changes of Benefit Terms

There were no changes of benefit terms for the pension plans.