



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Highland Water District

Snohomish County

For the period January 1, 2014 through December 31, 2014

Published August 31, 2015

Report No. 1014928





Washington State Auditor's Office

August 31, 2015

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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Highland Water District
Snohomish County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Highland Water District
Monroe, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Highland Water District, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 18, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we will report to the management of the District in a separate letter dated August 25, 2015.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 18, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Highland Water District Snohomish County January 1, 2014 through December 31, 2014

Board of Commissioners
Highland Water District
Monroe, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Highland Water District, Snohomish County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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, 2014, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 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 dated August 18, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

August 18, 2015

FINANCIAL SECTION

**Highland Water District
Snohomish County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Fund Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2014

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, 2014. 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, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current Assets	\$ 701,085	\$ 695,448
Noncurrent Assets:		
Capital Assets - Net	8,898,545	9,061,820
Other	<u>410,647</u>	<u>430,981</u>
Total Assets	<u>\$ 10,010,277</u>	<u>\$ 10,188,249</u>

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2014

Liabilities

Current Liabilities	\$ 409,446	\$ 393,207
Noncurrent Liabilities:		
Long-Term Debt	4,912,299	5,197,840
Other	<u>6,946</u>	<u>7,086</u>
Total Liabilities	<u>\$ 5,328,691</u>	<u>\$ 5,598,133</u>

Net Position

Net Investment in Capital Assets	\$ 3,700,183	\$ 3,581,387
Restricted for Debt Service	105,105	85,736
Restricted for Capital Projects	-	-
Unrestricted	<u>876,298</u>	<u>922,993</u>
Total Net Position	<u>\$ 4,681,586</u>	<u>\$ 4,590,116</u>

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 \$9,215 in 2014. 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 \$18,388 in 2014. 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 \$20,334 due to the principal collections received in 2014. 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 \$16,239 in 2014.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by \$285,541 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 2014 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District's net position indicate the District's overall financial growth. The increase in net position is a positive sign of the District's financial strength.

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2014

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>2014</u>	<u>2013</u>
<u>Revenues</u>		
Water Operating Revenue	\$ 1,031,733	\$ 1,017,315
Interest Income	<u>22,067</u>	<u>23,495</u>
Total Revenues	<u>\$ 1,053,800</u>	<u>\$ 1,040,810</u>
<u>Expenses</u>		
Operating Expenses	\$ 806,604	\$ 756,179
Nonoperating Expenses	<u>182,026</u>	<u>188,643</u>
Total Expenses	<u>\$ 988,630</u>	<u>\$ 944,822</u>
Change in Net Position before Capital Contributions	\$ 65,170	\$ 95,988
Capital Contributions	<u>26,300</u>	<u>-</u>
Change in Net Position	\$ 91,470	\$ 95,988
<u>Total Net Position, January 1</u>	<u>4,590,116</u>	<u>4,494,128</u>
<u>Total Net Position, December 31</u>	<u>\$ 4,681,586</u>	<u>\$ 4,590,116</u>

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

Revenues

Water operating revenue increased by \$14,418 in 2014. Nonoperating revenue, which is interest income from investments, decreased by \$1,428 in 2014. Water operating revenue increased in part by a rate increase to offset the rate increase from the City of Everett. The water consumption also increased in 2014 due to a warmer and dryer summer.

Expenses

Operating expenses increased by \$50,425 in 2014. The increase was mostly due to increased water purchases. Water purchases increased by \$22,741 in 2014. Part of the reason for the water purchase increase was due to a rate increase from the City of Everett in the amount of .12 cents per hundred cubic feet. Water consumption also increased due to the warmer and dryer summer.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by \$6,617 in 2014 due to a decreasing outstanding loan balance through 2014 as the District paid down its debt. No new borrowings occurred in 2014.

Highland Water District
Management's Discussion and Analysis
Year Ended December 31, 2014

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

Capital Contributions increased by \$26,300 in 2014.

Change in Net Position

The District recorded growth in their net position in 2014, reflecting the fact that total revenues exceeded expenses.

Analysis of Overall Financial Condition

The District's financial condition improved in 2014 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 2014. 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, 2014 was as follows:

	<u>Balance</u> <u>12/31/14</u>	<u>Balance</u> <u>12/31/13</u>	<u>Change</u>
Land	\$ 99,147	\$ 99,147	\$ -
Utility Plant	11,469,585	11,469,585	-
Equipment	83,974	83,974	-
Intangibles	225,701	182,581	43,120
Accumulated Depreciation	<u>(2,979,862)</u>	<u>(2,773,467)</u>	<u>(206,395)</u>
Total Capital Assets, Net	<u>\$ 8,898,545</u>	<u>\$ 9,061,820</u>	<u>\$ (163,275)</u>

See Note 3 for more information regarding capital assets.

Long-Term Debt

At December 31, 2014, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of \$1,560,789, and total United States Department of Agriculture loans outstanding of \$3,648,592. The total long-term debt of the District decreased by \$282,211 during 2014 due to principal payments made on the loans. See Note 4 for more information regarding long-term debt.

Highland Water District
Statement of Net Position
December 31, 2014

	<u>2014</u>
ASSETS	
<u>Current Assets</u>	
Cash & Cash Equivalents	\$ 379,860
Accrued Interest Receivable	28
Assessments Receivable - Friar Creek (Current Portion)	9,899
Receivables (Net):	
Customer Accounts Receivable	104,727
Restricted Assets:	
Cash & Cash Equivalents	172,067
Accrued Interest Receivable	5
Inventories	23,516
Prepayments	10,973
Due from Developers	<u>10</u>
Total Current Assets	<u>\$ 701,085</u>
 <u>Noncurrent Assets</u>	
Assessments Receivable - Friar Creek (Less Current Portion)	\$ 398,312
Restricted Assets:	
U.L.I.D. Assessments Receivable	12,335
Capital Assets Not Being Depreciated	
Land and Land Rights	99,147
Capital Assets Being Depreciated	
Plant	11,469,583
Equipment	83,976
Intangibles	225,701
Less Accumulated Depreciation	<u>(2,979,862)</u>
Total Noncurrent Assets	<u>\$ 9,309,192</u>
Total Assets	<u>\$ 10,010,277</u>

The accompanying notes are an integral part of this statement

Highland Water District
Statement of Net Position
December 31, 2014

	<u>2014</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 29,750
Accrued Wages	7,578
Accrued Interest Payable	6,753
Current Portion of Long-Term Debt	286,063
Payables from Restricted Assets:	
Accrued Interest Payable - USDA Loans	<u>79,302</u>
Total Current Liabilities	<u>\$ 409,446</u>
 <u>Noncurrent Liabilities</u>	
Department of Agriculture Loans	\$ 3,568,087
Public Works Trust Fund Loans	1,186,611
State Revolving Fund Loan	168,620
Less Unamortized Charges	(11,019)
Vested Benefits	<u>6,946</u>
Total Noncurrent Liabilities	<u>\$ 4,919,245</u>
Total Liabilities	<u>\$ 5,328,691</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 3,700,183
Restricted for Debt Service	105,105
Unrestricted	<u>876,298</u>
Total Net Position	<u>\$ 4,681,586</u>

The accompanying notes are an integral part of this statement

Highland Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2014

	<u>2014</u>
<u>Operating Revenues</u>	
Water Sales	\$ 1,015,932
Penalties	13,585
Miscellaneous Revenue	<u>2,216</u>
Total Operating Revenues	\$ 1,031,733
<u>Operating Expenses</u>	
Water Purchases	\$ 168,100
Labor Costs	156,391
Payroll Taxes & Benefits	56,290
System Maintenance and Supplies	24,048
Other Operating Expenses	29,390
Depreciation Expense	206,395
Business Taxes	52,637
General & Administrative Expenses	<u>113,353</u>
Total Operating Expenses	\$ <u>806,604</u>
Operating Income (Loss)	\$ 225,129
<u>Nonoperating Revenues (Expenses)</u>	
Interest on Investments	\$ 22,067
Interest Expense	<u>(182,026)</u>
Total Nonoperating Revenues (Expenses)	\$ <u>(159,959)</u>
Income Before Contributions	\$ 65,170
Capital Contributions	<u>26,300</u>
Change in Net Position	\$ 91,470
<u>Total Net Position, January 1</u>	<u>4,590,116</u>
<u>Total Net Position, December 31</u>	<u>\$ 4,681,586</u>

The accompanying notes are an integral part of this statement

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2014

	<u>2014</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 1,030,731
Cash Paid to Suppliers	(372,510)
Cash Paid to Employees	<u>(208,907)</u>
Net Cash Provided by Operating Activities	<u>\$ 449,314</u>
 <u>Cash Flows From Capital & Related Financing Activities</u>	
Acquisition and Construction of Capital Assets	\$ (43,120)
Principal Payments on Public Works Trust Fund Loans	(149,352)
Principal Payments on State Revolving Fund Loan	(56,207)
Principal Payments on Dept. of Agriculture Loans	(76,512)
Interest Paid on Long-Term Debt	(185,037)
Capital Contributions	<u>47,354</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (462,874)</u>
 <u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 22,733</u>
Net Cash Provided by Investing Activities	<u>\$ 22,733</u>
Net Increase in Cash & Cash Equivalents	\$ 9,173
Cash & Cash Equivalents at Beginning of Year	<u>542,754</u>
Cash & Cash Equivalents at End of Year	<u>\$ 551,927</u>
 <u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ -</u>

The accompanying notes are an integral part of this statement

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2014

	<u>2014</u>
<u>Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ 225,129
<u>Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities</u>	
Depreciation	\$ 206,395
Change in Assets & Liabilities:	
(Increase) Decrease in Customer Accounts Receivable	(1,002)
(Increase) Decrease in Prepayments	(759)
(Increase) Decrease in Inventories	3,912
Increase (Decrease) in Accounts Payable	15,779
Increase (Decrease) in Vested Benefits	<u>(140)</u>
Total Adjustments	<u>\$ 224,185</u>
 Net Cash Provided by Operating Activities	 <u>\$ 449,314</u>

The accompanying notes are an integral part of this statement

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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.

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>12/31/14</u>
Petty Cash Fund	\$ 293
Bank Deposit Accounts - FDIC Insured	134,987
Cash on Deposit with Snohomish County Treasurer	16,446
Investment in State Investment Pool	<u>400,201</u>
Total Cash & Investments	<u>\$ 551,927</u>

Credit risk - As of December 31, 2014, 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.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 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	11,469,583	-	-	11,469,583
Equipment	83,976	-	-	83,976
Intangibles	182,581	43,120	-	225,701
<u>Total capital assets being depreciated</u>	<u>11,736,140</u>	<u>43,120</u>	<u>-</u>	<u>11,779,260</u>
Less accumulated depreciation for:				
Plant	2,523,243	196,950	-	2,720,193
Equipment	68,556	4,939	-	73,495
Intangibles	181,668	4,506	-	186,174
<u>Total accumulated depreciation</u>	<u>2,773,467</u>	<u>206,395</u>	<u>-</u>	<u>2,979,862</u>
<u>Total capital assets being depreciated, net</u>	<u>8,962,673</u>	<u>(163,275)</u>	<u>-</u>	<u>8,799,398</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 9,061,820</u>	<u>\$ (163,275)</u>	<u>\$ -</u>	<u>\$ 8,898,545</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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>2014</u>
1996 loan - payable at \$1,826 monthly (including interest at 5.5% per annum) through the year 2036 Original debt: \$353,858	\$ 275,890
2003 loan - payable at \$29,858 annually (including interest at 4.625% per annum) through the year 2027 Original debt: \$471,530	278,545
2003 loan - payable at \$27,016 annually (including interest at 4.5% per annum) through the year 2023 Original debt: \$355,503	179,054
2009 loan - payable at \$161,551 annually (including interest at 4.25% per annum) through the year 2049 Original debt: \$3,051,000	2,915,103
	<u>\$ 3,648,592</u>

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2014, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 80,505	\$ 159,832	\$ 240,337
2016	84,133	156,204	240,337
2017	87,927	152,410	240,337
2018	91,892	148,445	240,337
2019	96,038	144,299	240,337
2020 - 2024	495,367	653,562	1,148,929
2025 - 2029	446,513	545,311	991,824
2030 - 2034	470,829	446,487	917,316
2035 - 2039	502,507	337,835	840,342
2040 - 2044	580,291	227,464	807,755
2045 - 2049	712,590	93,214	805,804
	<u>\$ 3,648,592</u>	<u>\$ 3,065,063</u>	<u>\$ 6,713,655</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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>2014</u>
2000 loan - payable at \$4,931 annually through the year 2020, plus interest at .5% per annum Original debt: \$124,430	\$ 29,587
2000 loan - payable at \$8,644 annually through the year 2020, plus interest at .5% per annum Original debt: \$229,755	51,866
2002 loan - payable at \$73,786 annually through the year 2022, plus interest at .5% per annum Original debt: \$1,530,000	590,286
2004 loan - payable at \$17,671 annually through the year 2024, plus interest at .5% per annum Original debt: \$335,750	176,710
2005 loan - payable at \$14,122 annually through the year 2025, plus interest at 2% per annum Original debt: \$362,093	155,342
2005 loan - payable at \$30,197 annually through the year 2025, plus interest at .5% per annum Original debt: \$573,750	<u>332,171</u>
	<u>\$ 1,335,962</u>

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2014, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 149,351	\$ 9,010	\$ 158,361
2016	149,352	8,051	157,403
2017	149,352	7,093	156,445
2018	149,352	6,134	155,486
2019	149,351	5,176	154,527
2020 - 2024	544,885	12,275	557,160
2025	<u>44,319</u>	<u>434</u>	<u>44,753</u>
	<u>\$ 1,335,962</u>	<u>\$ 48,173</u>	<u>\$ 1,384,135</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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
Original debt: \$1,023,501 \$ 224,827

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2014, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 224,827</u>	<u>\$ 22,483</u>	<u>\$ 247,310</u>

d. Changes in Long-Term Debt

During the year ended December 31, 2014, the following changes occurred in long-term debt:

	<u>Balance</u> <u>1/1/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/14</u>	<u>Due Within</u> <u>One Year</u>
U.S. Department of Agriculture Loans	\$ 3,725,625	\$ -	\$ 77,033	\$ 3,648,592	\$ 80,505
Public Works Trust Fund Loans	1,485,315	-	149,353	1,335,962	149,351
Drinking Water State Revolving Fund Loan	281,034	-	56,207	224,827	56,207
Compensated Absences	7,086	-	140	6,946	-
Less: Unamortized Costs	<u>(11,541)</u>	<u>522</u>	<u>-</u>	<u>(11,019)</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 5,487,519</u>	<u>\$ 522</u>	<u>\$ 282,733</u>	<u>\$ 5,205,308</u>	<u>\$ 286,063</u>

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

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 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 is 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.

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 \$4,704 in 2014, \$4,742 in 2013 and \$6,185 in 2012. The District contributed 100% of the required amount in each of these years.

As of January 1, 2013, the actuarial value of the assets in the Pension Trust fund was \$34,132,485,000, the value of the liabilities was \$37,865,447,000, and the funded ratio was 90.1%. The market value of the fund on December 31, 2012 was \$33,310,140,000. As of December 31, 2013, the asset allocation of the fund's assets were as follow: 11.90% US Government securities, 14.63% corporate debt instruments, 10.71% corporate stocks, 11.40% partnership/joint venture interests, 6.16% real estate, 0.10% loans, 30.79% common/collective trusts, 6.02% pooled separate accounts, 0.87% funds held in registered investment companies, 0.34% funds held in insurance co. general account, 0.02% building and other property used in the fund's operations, 2.26% interest bearing cash, 3.05% value of interest in 103-12 investment entities, 1.75% 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

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

NOTE 6 - RISK MANAGEMENT (Continued)

Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2014, there are 491 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 crime coverage up to a limit of \$1,000,000 per occurrence.

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 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. 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.

For years ending December 31, 2012, 2013, and 2014 the District had no claims in excess of their insurance coverage.

Highland Water District
Notes to Financial Statements
Year Ended December 31, 2014

NOTE 7 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 8 - CONTINGENCIES

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
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Main telephone	(360) 902-0370
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