INDEPENDENT ACCOUNTANT’S COMPILATION REPORT

To the Board of Commissioners

Highland Water District

Monroe, Washington

We have compiled the accompanying statement of net position of Highland Water District as of December 31, 2013 and the related statement of revenues, expenses and changes in fund net position and the statement of cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The supplementary information contained in the Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

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

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

Certified Public Accountants

March 10, 2014

Highland Water District

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December 31, 2013

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**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, 2013. 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 the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

2013 2012

**Assets**

Current Assets $ 695,448 $ 661,662

Noncurrent Assets:

Capital Assets - Net 9,061,820 9,268,519

Other 430,981 441,259

Total Assets $ 10,188,249 $ 10,371,440

**Liabilities**

Current Liabilities $ 393,207 $ 389,127

Noncurrent Liabilities:

Long-Term Debt 5,197,840 5,479,902

Other 7,086 8,283

Total Liabilities $ 5,598,133 $ 5,877,312

**Net Position**

Net Investment in Capital Assets $ 3,581,387 $ 3,509,355

Restricted for Debt Service 85,736 583,036

Restricted for Capital Projects - -

Unrestricted 922,993 401,737

Total Net Position $ 4,590,116 $ 4,494,128

**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 $8,475 in 2013. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts increased by $24,048 in 2013. The remainder of the current assets include accounts receivable, accrued interest receivable, prepaid expenses, inventories and the current portion of the Friar Creek assessments receivable.

Noncurrent Assets consist of U.L.I.D. assessments receivable and assessments receivable for Friar Creek, net of the current portion. These items decreased by $10,278 due to the principal collections received in 2013. 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 $4,080 in 2013.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by $282,062 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 2013 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):

2013 2012

**Revenues**

Water Operating Revenue $ 1,017,315 $ 950,342

Interest Income 23,495 23,117

Total Revenues $ 1,040,810 $ 973,459

**Expenses**

Operating Expenses $ 756,179 $ 730,374

Nonoperating Expenses 188,643 195,053

Total Expenses $ 944,822 $ 925,427

Change in Net Position before

Capital Contributions $ 95,988 $ 48,032

Capital Contributions - -

Change in Net Position 95,988 48,032

**Total Net Position, January 1** $ 4,494,128 $ 4,446,096

**Total Net Position, December 31** $ 4,590,116 $ 4,494,128

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

Revenues

Water operating revenue increased by $66,973 in 2013. Nonoperating revenue, which is interest income from investments, increased by $378 in 2013. 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 2013 due to a warmer and dryer summer.

Expenses

Operating expenses increased by $25,806 in 2013. The increase was mostly due to increased water purchases. Water purchases increased by $22,981 in 2013. 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 $6,410 in 2013 due to a decreasing outstanding loan balance through 2013 as the District paid down its debt. No new borrowings occurred in 2013.

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

Capital Contributions did not change in 2013.

Change in Net Position

The District recorded growth in their net position in 2013, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2013 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 2013. 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, 2013 was as follows:

Balance Balance

12/31/13 12/31/12 Change

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 (2,773,467) (2,566,768) (206,699)

Total Capital Assets, Net $ 9,061,820 $ 9,268,519 $ (206,699)

See Note 3 in the financial statements for detail activity in the capital assets.

**Long-Term Debt**

At December 31, 2013, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of $1,766,349, and total United States Department of Agriculture loans outstanding of $3,725,625. The total long-term debt of the District decreased by $282,062 during 2013 due to principal payments made on the loans. See Note 4 in the financial statements for detail activity in the Long-Term Debt.

2013

ASSETS

Current Assets

Cash & Cash Equivalents $ 389,075

Accrued Interest Receivable 693

Assessments Receivable - Friar Creek (Current Portion) 10,619

Receivables (Net):

Customer Accounts Receivable 103,724

Restricted Assets:

Cash & Cash Equivalents 153,679

Accrued Interest Receivable 6

Inventories 27,428

Prepayments 10,214

Due from Developers 10

Total Current Assets $ 695,448

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 417,659

Restricted Assets:

U.L.I.D. Assessments Receivable 13,322

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 11,469,583

Equipment 83,976 Intangibles 182,581

Less Accumulated Depreciation (2,773,467)

Total Noncurrent Assets $ 9,492,801

Total Assets $ 10,188,249

2013

LIABILITIES

Current Liabilities

Accounts Payable $ 14,200

Accrued Wages 7,349

Accrued Interest Payable 7,795

Current Portion of Long-Term Debt 282,592

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 81,271

Total Current Liabilities $ 393,207

Noncurrent Liabilities

Department of Agriculture Loans (Less Current Portion) $ 3,648,591

Public Works Trust Fund Loans (Less Current Portion) 1,335,963

State Revolving Fund Loan (Less Current Portion) 224,827

Less Unamortized Charges (11,541)

Vested Benefits 7,086

Total Noncurrent Liabilities $ 5,204,926

Total Liabilities $ 5,598,133

NET POSITION

Net Investment in Capital Assets $ 3,581,387

Restricted for Debt Service 85,736

Unrestricted 922,993

Total Net Position $ 4,590,116

2013

Operating Revenues

Water Sales $ 1,001,026

Penalties 13,174

Miscellaneous Revenue 3,115

Total Operating Revenues $ 1,017,315

Operating Expenses

Water Purchases $ 145,359

Labor Costs 151,470

Payroll Taxes & Benefits 54,822

System Maintenance and Supplies 15,034

Other Operating Expenses 22,337

Depreciation Expense 206,699

Business Taxes 52,071

General & Administrative Expenses 108,387

Total Operating Expenses $ 756,179

Operating Income (Loss) $ 261,136

Nonoperating Revenues (Expenses)

Interest on Investments $ 23,495

Interest Expense (188,643)

Total Nonoperating Revenues (Expenses) $ (165,148)

Change in Net Position $ 95,988

Total Net Position, January 1 $ 4,494,128

Total Net Position, December 31 $ 4,590,116

2013

Cash Flows From Operating Activities

Cash Received From Customers $ 1,013,042

Cash Paid to Suppliers (342,323)

Cash Paid to Employees (203,059)

Net Cash Provided by Operating Activities $ 467,660

Cash Flows From Capital & Related

Financing Activities

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 (73,183)

Interest Paid on Long-Term Debt (191,570)

Capital Contributions 11,784

Net Cash (Used) by Capital

& Related Financing Activities $ (458,527)

Cash Flows From Investing Activities

Interest Received on Investments $ 23,390

Net Cash Provided by Investing Activities $ 23,390

Net Increase in Cash & Cash Equivalents $ 32,523

Cash & Cash Equivalents at Beginning of Year 510,231

Cash & Cash Equivalents at End of Year $ 542,754

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

2013

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 261,136

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 206,699

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable (4,273)

(Increase) Decrease in Prepayments 67

(Increase) Decrease in Inventories 1,541

Increase (Decrease) in Accounts Payable 3,687

Increase (Decrease) in Vested Benefits (1,197)

Total Adjustments $ 206,524

Net Cash Provided by Operating Activities $ 467,660

NOTE 1 – DESCRIPTION OF BUSINESSS, 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. The District adopted Governmental Accounting Standards Board Statement 62 which codified accounting and financial reporting guidance contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements and eliminated the option for the District to apply Post-November 30, 1989 FASB statements and interpretations that do not conflict with statements issued by the Governmental Accounting Standards Board. All activities of the District are accounted for within a single proprietary (enterprise) fund.

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

b. Basis of Accounting and Presentation (Continued)

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

c. Cash and Cash Equivalents

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

d. Capital Assets

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

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

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

See Note 3.

e. Restricted Funds

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

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

f. Receivables

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

g. Inventories

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

h. Investments

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

i. Compensated Absences

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

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.

12/31/13

Petty Cash Fund $ 420

Bank Deposit Accounts - FDIC Insured 116,547

Cash on Deposit with Snohomish

County Treasurer 31,636

Investment in State Investment Pool 394,151

Total Cash & Investments $ 542,754

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Credit risk- As of December 31, 2013, 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 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 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 11,469,583 - - 11,469,583

Equipment 83,976 - - 83,976

Intangibles 182,581 - - 182,581

Total capital assets being

depreciated 11,736,140 - - 11,736,140

Less accumulated depreciation for:

Plant 2,325,381 197,862 - 2,523,243

Equipment 63,618 4,938 - 68,556

Intangibles 177,769 3,899 - 181,668

Total accumulated

depreciation 2,566,768 206,699 - 2,773,467

Total capital assets being

depreciated, net 9,169,372 (206,699) - 8,962,673

TOTAL CAPITAL

ASSETS, NET $ 9,268,519 $ (206,699) $ - $ 9,061,820

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:

2013

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

interest at 5.5% per annum) through the year 2036

Original debt: $353,858 $ 282,432

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

interest at 4.625% per annum) through the year 2027

Original debt: $471,530 294,770

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

interest at 4.5% per annum) through the year 2023

Original debt: $355,503 197,196

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

interest at 4.25% per annum) through the year 2049

Original debt: $3,051,000 2,951,227

$ 3,725,625

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2013, including interest, are as follows:

Principal Interest Total

2014 $ 77,034 $ 163,303 $ 240,337

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 - 2023 499,808 676,137 1,175,945

2024 - 2028 455,767 565,917 1,021,684

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 153,094 6,506 159,600

$ 3,725,625 $ 3,228,368 $ 6,953,993

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:

2013

2000 loan - payable at $4,931 annually through

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

Original debt: $124,430 $ 34,518

2000 loan - payable at $8,644 annually through

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

Original debt: $229,755 60,511

2002 loan - payable at $73,786 annually through

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

Original debt: $1,530,000 664,072

2004 loan - payable at $17,671 annually through

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

Original debt: $335,750 194,382

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 169,464

2005 loan - payable at $30,197 annually through

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

Original debt: $573,750 362,368

$ 1,485,315

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2013, including interest, are as follows:

Principal Interest Total

2014 149,352 9,969 159,321

2015 149,352 9,008 158,360

2016 149,352 8,051 157,403

2017 149,352 7,093 156,445

2018 149,352 6,134 155,486

2019 - 2023 632,246 16,496 648,742

2024 - 2025 106,309 1,388 107,697

$ 1,485,315 $ 58,139 $ 1,543,454

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 $281,034

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2013, including interest, are as follows:

Principal Interest Total

2014 56,206 11,241 67,447

2015 56,207 8,993 65,200

2016 56,207 6,745 62,952

2017 56,207 4,497 60,704

2018 56,207 2,248 58,455

$ 281,034 $ 33,724 $ 314,758

d. Changes in Long-Term Debt

During the year ended December 31, 2013, the following changes occurred in long-term debt:

Balance Balance Due Within

1/1/13 Additions Reductions 12/31/13 One Year

U.S. Department of

Agriculture Loans $ 3,799,338 $ - $ 73,713 $ 3,725,625 $ 77,034

Public Works Trust

Fund Loans 1,634,667 - 149,352 1,485,315 149,352

Drinking Water

State Revolving

Fund Loan 337,241 - 56,207 281,034 56,206

Compensated

Absences 8,283 - 1,197 7,086 -

Less: Unamortized

costs (12,070) 529 - (11,541) -

Total Long-Term

Debt $ 5,767,459 $ 529 $ 280,469 $ 5,487,519 $ 282,592

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 withdrawl 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 $4,742 in 2013, $6,185 in 2012 and $5,025 in 2011. The District contributed 100% of the required amount in each of these years.

As of January 1, 2012, the actuarial value of the assets in the Pension Trust fund was $33,310,140,000, the value of the liabilities was $36,847,336,000, and the funded ratio was 90.4%. The market value of the fund on December 31, 2012 was $32,316,264,483. As of December 31, 2012, the asset allocation of the fund’s assets were as follow: 19.83% US Government securities, 18.16% corporate debt instruments, 6.09% corporate stocks, 10.11% partnership/joint venture interests, 6.60% real estate, 0.17% loans, 27.59% common/collective trusts, 5.76% pooled separate accounts, 0.40% funds held in insurance company general account, 0.03% building and other property used in the fund’s operations, .07% interest bearing cash, 2.54% value of interest in 103-12 investment entities, 2.65% 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

NOTE 6 - RISK MANAGEMENT (Continued)

Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2013, there are 486 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. For years ending December 31 2012, 2011, 2010 there were no settlements greater than the insurance coverage in those years.

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 - CONTINGENCIES

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

NOTE 9- ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 65 as of January 1, 2013. The District did not restate prior years for the change in accounting for debt issue costs as the amount of these costs carried on the books was not material to the financial statements. The District did drop the term deferred charges per GASB 65.