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, 2014 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 17, 2015

Highland Water District

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December 31, 2014

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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, 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.

2014 2013

**Assets**

Current Assets $ 701,085 $ 695,448

Noncurrent Assets:

Capital Assets - Net 8,898,545 9,061,820

Other 410,647 430,981

Total Assets $ 10,010,277 $ 10,188,249

**Liabilities**

Current Liabilities $ 409,446 $ 393,207

Noncurrent Liabilities:

Long-Term Debt 4,912,299 5,197,840

Other 6,946 7,086

Total Liabilities $ 5,328,691 $ 5,598,133

**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 876,298 922,993

Total Net Position $ 4,681,586 $ 4,590,116

**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.

**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):

2014 2013

**Revenues**

Water Operating Revenue $ 1,031,733 $ 1,017,315

Interest Income 22,067 23,495

Total Revenues $ 1,053,800 $ 1,040,810

**Expenses**

Operating Expenses $ 806,604 $ 756,179

Nonoperating Expenses 182,026 188,643

Total Expenses $ 988,630 $ 944,822

Change in Net Position before

Capital Contributions $ 65,170 $ 95,988

Capital Contributions 26,300 -

Change in Net Position $ 91,470 $ 95,988

**Total Net Position, January 1** 4,590,116 4,494,128

**Total Net Position, December 31** $ 4,681,586 $ 4,590,116

**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.

**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:

Balance Balance

12/31/14 12/31/13 Change

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 (2,979,862) (2,773,467) (206,395)

Total Capital Assets, Net $ 8,898,545 $ 9,061,820 $ (163,275)

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.

2014

ASSETS

Current Assets

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 10

Total Current Assets $ 701,085

Noncurrent Assets

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 (2,979,862)

Total Noncurrent Assets $ 9,309,192

Total Assets $ 10,010,277

2014

LIABILITIES

Current Liabilities

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 79,302

Total Current Liabilities $ 409,446

Noncurrent Liabilities

Department of Agriculture Loans (Less Current Portion) $ 3,568,087

Public Works Trust Fund Loans (Less Current Portion) 1,186,611

State Revolving Fund Loan (Less Current Portion) 168,620

Less Unamortized Charges (11,019)

Vested Benefits 6,946

Total Noncurrent Liabilities $ 4,919,245

Total Liabilities $ 5,328,691

NET POSITION

Net Investment in Capital Assets $ 3,700,183

Restricted for Debt Service 105,105

Unrestricted 876,298

Total Net Position $ 4,681,586

2014

Operating Revenues

Water Sales $ 1,015,932

Penalties 13,585

Miscellaneous Revenue 2,216

Total Operating Revenues $ 1,031,733

Operating Expenses

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 113,353

Total Operating Expenses $ 806,604

Operating Income (Loss) $ 225,129

Nonoperating Revenues (Expenses)

Interest on Investments $ 22,067

Interest Expense (182,026)

Total Nonoperating Revenues (Expenses) $ (159,959)

Income Before Contributions $ 65,170

Capital Contributions 26,300

Change in Net Position $ 91,470

Total Net Position, January 1 4,590,116

Total Net Position, December 31 $ 4,681,586

2014

Cash Flows From Operating Activities

Cash Received From Customers $ 1,030,731

Cash Paid to Suppliers (372,510)

Cash Paid to Employees (208,907)

Net Cash Provided by Operating Activities $ 449,314

Cash Flows From Capital & Related

Financing Activities

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 47,354

Net Cash (Used) by Capital

& Related Financing Activities $ (462,874)

Cash Flows From Investing Activities

Interest Received on Investments $ 22,733

Net Cash Provided by Investing Activities $ 22,733

Net Increase in Cash & Cash Equivalents $ 9,173

Cash & Cash Equivalents at Beginning of Year 542,754

Cash & Cash Equivalents at End of Year $ 551,927

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

2014

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 225,129

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

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 (140)

Total Adjustments $ 224,185

Net Cash Provided by Operating Activities $ 449,314

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. 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 BUSINESSS, 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 BUSINESSS, 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.

12/31/14

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 400,201

Total Cash & Investments $ 551,927

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.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2014 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 43,120 - 225,701

Total capital assets being

depreciated 11,736,140 43,120 - 11,779,260

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

Total accumulated

depreciation 2,773,467 206,395 - 2,979,862

Total capital assets being

depreciated, net 8,962,673 (163,275) - 8,799,398

TOTAL CAPITAL

ASSETS, NET $ 9,061,820 $ (163,275) $ - $ 8,898,545

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:

2014

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

$ 3,648,592

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

Principal Interest Total

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

$ 3,648,592 $ 3,065,063 $ 6,713,655

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:

2014

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: $573,750 332,171

$ 1,335,962

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

Principal Interest Total

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 44,319 434 44,753

$ 1,335,962 $ 48,173 $ 1,384,135

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:

Principal Interest Total

2015 $ 56,207 $ 8,993 $ 65,200

2016 56,207 6,745 62,952

2017 56,207 4,497 60,704

2018 56,206 2,248 58,454

$ 224,827 $ 22,483 $ 247,310

d. Changes in Long-Term Debt

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

Balance Balance Due Within

1/1/14 Additions Reductions 12/31/14 One Year

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 (11,541) 522 - (11,019) -

Total Long-Term

Debt $ 5,487,519 $ 522 $ 282,733 $ 5,205,308 $ 286,063

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

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.

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.