To the Board of Commissioners

Highland Water District

Monroe, Washington

Management is responsible for the accompanying financial statements of Highland Water District, which comprise the statement of net position as of December 31, 2015 and 2014, and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

**Supplementary Information**

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. This information is the representation of management. The information was subject to our compilation engagement; however, we have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.

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

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

Certified Public Accountants

February 15, 2016

Highland Water District

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December 31, 2015

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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, 2015. 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, 2015 and 2014.

2015 2014

**Assets**

Current Assets $ 828,690 $ 701,085

Noncurrent Assets:

Capital Assets - Net 8,703,422 8,898,545

Other 376,108 410,647

Total Assets $ 9,908,220 $ 10,010,277

**Liabilities**

Current Liabilities $ 432,862 $ 409,446

Noncurrent Liabilities:

Long-Term Debt 4,633,626 4,923,318

Other 8,456 6,946

Total Liabilities $ 5,074,944 $ 5,339,710

**Net Position**

Net Investment in Capital Assets $ 3,775,258 $ 3,689,164

Restricted for Debt Service 124,500 105,105

Restricted for Capital Projects - -

Unrestricted 933,518 876,298

Total Net Position $ 4,833,276 $ 4,670,567

**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 $118,923 in 2015. 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 $4,462 in 2015. 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. Together these accounts increased by $4,220 in 2015.

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 $34,539 due to the principal collections received in 2015. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts decreased by $195,123 primarily due to the 2015 depreciation expense on these items.

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 $23,416 in 2015.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by $289,692 in 2015. This decrease was due to required payments of principal during the year in the amount of $286,064. 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 2015 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):

2015 2014

**Revenues**

Water Operating Revenue $ 1,102,348 $ 1,031,733

Interest Income 22,136 22,067

Total Revenues $ 1,124,484 $ 1,053,800

**Expenses**

Operating Expenses $ 821,844 $ 806,604

Nonoperating Expenses 178,831 181,504

Total Expenses $ 1,000,675 $ 988,108

Change in Net Position before

Capital Contributions $ 123,809 $ 65,692

Capital Contributions 38,900 26,300

Change in Net Position $ 162,709 $ 91,992

**Total Net Position, January 1** 4,670,567 4,590,116

Change in Application of Accounting Principle - (11,541)

**Total Net Position, December 31** $ 4,833,276 $ 4,670,567

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

Revenues

Water operating revenue increased by $70,615 in 2015. Nonoperating revenue, which is interest income from investments, was almost unchanged in 2015. Water operating revenue increased in part due to a rate increase to offset the rate increase from the City of Everett. The water consumption also increased in 2015 due to a warmer and drier summer.

Expenses

Operating expenses increased by $15,240 in 2015. The increase was mostly due to increased water purchases. Water purchases increased by $32,011 in 2015. Part of the reason for the water purchase increase was due to a rate increase from the City of Everett in the amount of $0.12 per hundred cubic feet. Water consumption also increased due to the warmer and drier summer.

Nonoperating expenses consist of interest expense on long-term debt and loss on disposal of capital assets no longer in service. The interest on long-term debt decreased by $6,766 in 2015 due to a decreasing outstanding loan balance through 2015 as the District paid down its debt. No new borrowings occurred in 2015. The District incurred a loss of $4,093 due to the write off of old meters no longer in service

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

Capital Contributions increased by $12,600 in 2015.

Change in Net Position

The District recorded growth in their net position in 2015, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2015 with adequate liquid assets and positive operating cash flow.

**Capital Assets**

Capital assets consist of land, utility plant and equipment. The District completed its update to the Comprehensive Plan in 2015 and wrote off old items no longer in service. 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, 2015 was as follows:

Balance Balance

12/31/15 12/31/14 Change

Land $ 99,147 $ 99,147 $ -

Utility Plant 11,395,123 11,469,583 (74,460)

Equipment 73,968 83,976 (10,008)

Intangibles 75,866 225,701 (149,835)

Accumulated Depreciation (2,940,685) (2,979,862) 39,177

Total Capital Assets, Net $ 8,703,419 $ 8,898,545 $ (195,126)

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2015, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of $1,355,232, and total United States Department of Agriculture loans outstanding of $3,568,086. The total long-term debt of the District decreased by $284,554 during 2015 due to principal payments made on the loans. See Note 4 for more information regarding long-term debt.

2015

ASSETS

Current Assets

Cash & Cash Equivalents $ 498,783

Accrued Interest Receivable 64

Assessments Receivable - Friar Creek (Current Portion) 9,570

Receivables (Net):

Customer Accounts Receivable 100,195

Restricted Assets:

Cash & Cash Equivalents 176,529

Accrued Interest Receivable 768

Inventories 31,264

Prepayments 11,517

Total Current Assets $ 828,690

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 367,720

Restricted Assets:

U.L.I.D. Assessments Receivable 8,388

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 11,395,124

Equipment 73,970

Intangibles 75,866

Less Accumulated Depreciation (2,940,685)

Total Noncurrent Assets $ 9,079,530

Total Assets $ 9,908,220

2015

LIABILITIES

Current Liabilities

Accounts Payable $ 47,640

Accrued Wages 7,726

Accrued Interest Payable 5,712

Current Portion of Long-Term Debt 289,692

Developer Deposits 4,846

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 77,246

Total Current Liabilities $ 432,862

Noncurrent Liabilities

Department of Agriculture Loans (Less Current Portion) $ 3,483,954

Public Works Trust Fund Loans (Less Current Portion) 1,037,259

State Revolving Fund Loan (Less Current Portion) 112,413

Vested Benefits 8,456

Total Noncurrent Liabilities $ 4,642,082

Total Liabilities $ 5,074,944

NET POSITION

Net Investment in Capital Assets $ 3,775,258

Restricted for Debt Service 124,500

Unrestricted 933,518

Total Net Position $ 4,833,276

2015

Operating Revenues

Water Sales $ 1,085,985

Penalties 13,190

Miscellaneous Revenue 3,173

Total Operating Revenues $ 1,102,348

Operating Expenses

Water Purchases $ 200,111

Labor Costs 161,006

Payroll Taxes & Benefits 60,582

System Maintenance and Supplies 16,532

Other Operating Expenses 19,260

Depreciation Expense 207,790

Business Taxes 60,882

General & Administrative Expenses 95,681

Total Operating Expenses $ 821,844

Operating Income (Loss) $ 280,504

Nonoperating Revenues (Expenses)

Interest on Investments $ 22,136

Loss on disposal of fixed assets (4,093)

Interest Expense (174,738)

Total Nonoperating Revenues (Expenses) $ (156,695)

Income Before Contributions $ 123,809

Capital Contributions 38,900

Change in Net Position $ 162,709

Total Net Position, January 1 4,670,567

Total Net Position, December 31 $ 4,833,276

2015

Cash Flows From Operating Activities

Cash Received From Customers $ 1,106,880

Cash Paid to Suppliers (385,813)

Cash Paid to Employees (216,985)

Net Cash Provided by Operating Activities $ 504,082

Cash Flows From Capital & Related

Financing Activities

Acquisition and Construction of Capital Assets $ (16,760)

Principal Payments on Public Works

Trust Fund Loans (149,352)

Principal Payments on State Revolving Fund Loan (56,206)

Principal Payments on Dept. of Agriculture Loans (80,505)

Interest Paid on Long-Term Debt (177,835)

Capital Contributions 73,768

Developer & Other Deposits 4,856

Net Cash (Used) by Capital

& Related Financing Activities $ (402,034)

Cash Flows From Investing Activities

Interest Received on Investments $ 21,337

Net Cash Provided by Investing Activities $ 21,337

Net Increase in Cash & Cash Equivalents $ 123,385

Cash & Cash Equivalents at Beginning of Year 551,927

Cash & Cash Equivalents at End of Year $ 675,312

Noncash Investing, Capital and Financing Activities

Book Value of Plant Removals $ 4,093

2015

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 280,504

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 207,790

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable 4,532

(Increase) Decrease in Prepayments (544)

(Increase) Decrease in Inventories (7,748)

Increase (Decrease) in Accounts Payable 18,038

Increase (Decrease) in Vested Benefits 1,510

Total Adjustments $ 223,578

Net Cash Provided by Operating Activities $ 504,082

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.

12/31/15

Petty Cash Fund $ 448

Bank Deposit Accounts - FDIC Insured 160,109

Cash on Deposit with Snohomish

County Treasurer 52,391

Investment in State Investment Pool 462,364

Total Cash & Investments $ 675,312

Credit risk - As of December 31, 2015, 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, 2015 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 - 74,459 11,395,124

Equipment 83,976 - 10,006 73,970

Intangibles 225,701 16,760 166,595 75,866

Total capital assets being

depreciated 11,779,260 16,760 251,060 11,544,960

Less accumulated depreciation for:

Plant 2,720,193 195,415 70,366 2,845,242

Equipment 73,495 3,791 10,006 67,280

Intangibles 186,174 8,584 166,595 28,163

Total accumulated

depreciation 2,979,862 207,790 246,967 2,940,685

Total capital assets being

depreciated, net 8,799,398 (191,030) 4,093 8,604,275

TOTAL CAPITAL

ASSETS, NET $ 8,898,545 $ (191,030) $ 4,093 $ 8,703,422

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:

2015

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

interest at 5.5% per annum) through the year 2036

Original debt: $353,858 for main replacement. $ 268,978

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

interest at 4.625% per annum) through the year 2027

Original debt: $471,530 for main replacement. 261,570

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

interest at 4.5% per annum) through the year 2023

Original debt: $355,503 for main replacement. 160,095

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

interest at 4.25% per annum) through the year 2049

Original debt: $3,051,000 for main replacement. 2,877,443

$ 3,568,086

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2015, including interest, are as follows:

Principal Interest Total

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 100,372 139,965 240,337

2021 - 2025 490,737 631,175 1,121,912

2026 - 2030 436,821 525,146 961,967

2031 - 2035 492,064 425,251 917,315

2036 - 2040 501,824 316,607 818,431

2041 - 2045 604,954 202,801 807,755

2046 - 2049 581,324 62,930 644,254

$ 3,568,086 $ 2,905,233 $ 6,473,319

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:

2015

2000 loan - payable at $4,931 annually through

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

Original debt: $124,430 for main replacement $ 24,656

2000 loan - payable at $8,644 annually through

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

Original debt: $229,755 for main replacement 43,222

2002 loan - payable at $73,786 annually through

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

Original debt: $1,530,000 for main replacement 516,500

2004 loan - payable at $17,671 annually through

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

Original debt: $335,750 for Reservoir 2 preconstruction 159,039

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 141,220

2005 loan - payable at $30,197 annually through

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

Original debt: $573,750 for Reservoir 2 301,974

$ 1,186,611

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2015, including interest, are as follows:

Principal Interest Total

2016 $ 149,352 $ 8,051 $ 157,403

2017 149,352 7,093 156,445

2018 149,352 6,134 155,486

2019 149,352 5,176 154,528

2020 149,351 4,217 153,568

2021 - 2025 439,852 8,492 448,344

$ 1,186,611 $ 39,163 $ 1,225,774

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 for reservoir & PRV $ 168,621

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2015, including interest, are as follows:

Principal Interest Total

2016 $ 56,207 $ 6,745 $ 62,952

2017 56,207 4,497 60,704

2018 56,207 2,248 58,455

$ 168,621 $ 13,490 $ 182,111

d. Changes in Long-Term Debt

During the year ended December 31, 2015, the following changes occurred in long-term debt:

Balance Balance Due Within

1/1/15 Additions Reductions 12/31/15 One Year

U.S. Department of

Agriculture Loans $ 3,648,592 $ - $ 80,506 $ 3,568,086 $ 84,133

Public Works Trust

Fund Loans 1,335,962 - 149,351 1,186,611 149,352

Drinking Water

State Revolving

Fund Loan 224,827 - 56,206 168,621 56,207

Compensated

Absences 6,946 1,510 - 8,456 -

Total Long-Term

Debt $ 5,216,327 $ 1,510 $ 286,063 $ 4,931,774 $ 289,692

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 are different from a single-employer plan in the following aspects:

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

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

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

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

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 $4,680 in 2015, $4,704 in 2014 and $4,742 in 2013. The District contributed 100% of the required amount in each of these years. There is no unfunded liability on the District’s part.

As of January 1, 2014, the actuarial value of the assets in the Pension Trust fund was $35,478,550,000, the value of the liabilities was $39,116,028 and the funded ratio was 90.7%. The market value of the fund on December 31, 2014 was $36,699,934,862 As of December 31, 2014, the asset allocation of the fund’s assets were as follow: 41.1% Stocks, 33.50% Investment grade debt instruments, 3.60% High-yield debt instruments, 11.10% Real Estate, 10.70% 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, 2015, there are 507 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

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

* $1,000,000 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.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the deductibles as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, and automobile physical damage to insured vehicles. Liability coverage limit is $10 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence. Since Enduris is a cooperative program, there is a joint liability among the participating members.

The contract requires members to continue membership for a period of not less than one (1) year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with Enduris and are administered in house.

A Board of Directors consisting of seven (7) board members governs Enduris. 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, 2013, 2014, and 2015 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.