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, 2017 and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

**Other Matters**

***Required Supplementary Information***

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

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

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

Certified Public Accountants

March 19, 2018

Highland Water District

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December 31, 2017

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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, 2017. 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, 2017 and 2016.

2017 2016

**Assets**

Current Assets $ 1,397,014 $ 1,179,635

Noncurrent Assets:

Capital Assets - Net 8,365,196 8,532,749

Other 346,791 365,087

Total Assets $ 10,109,001 $ 10,077,471

**Liabilities**

Current Liabilities $ 438,827 $ 474,681

Noncurrent Liabilities:

Long-Term Debt 4,042,686 4,340,142

Other 15,004 10,032

Total Liabilities $ 4,496,517 $ 4,824,855

**Net Position**

Net Investment in Capital Assets $ 4,005,320 $ 3,899,126

Restricted for Debt Service 164,968 144,929

Restricted for Capital Projects - -

Unrestricted 1,442,196 1,208,561

Total Net Position $ 5,612,484 $ 5,252,616

**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 $199,044 in 2017. 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 $18,265 in 2017. 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 $70 in 2017.

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 $18,296 due to the principal collections received in 2017. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts decreased by $167,553 primarily due to the 2017 depreciation expense on these items.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt, developer deposits, and the current portion of long-term debt. These items decreased by $35,854 in 2017 mainly due to a decrease in developer deposits.

Noncurrent Liabilities consist of vested employee benefits and long-term debt. Long-term debt decreased by $297,456 in 2017. This decrease was due to required payments of principal during the year in the amount of $293,490. 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 2017 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):

2017 2016

**Revenues**

Water Operating Revenue $ 1,268,370 $ 1,171,534

Interest Income 26,835 22,981

Total Revenues $ 1,295,205 $ 1,194,515

**Expenses**

Operating Expenses $ 809,950 $ 856,267

Nonoperating Expenses 160,711 167,811

Total Expenses $ 970,661 $ 1,024,078

Change in Net Position before

Capital Contributions $ 324,544 $ 170,437

Capital Contributions 35,324 248,900

Change in Net Position $ 359,868 $ 419,337

**Total Net Position, January 1** 5,252,616 4,833,279

**Total Net Position, December 31** $ 5,612,484 $ 5,252,616

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

Revenues

Water operating revenue increased by $96,836 in 2017. Water operating revenue increased, in part, due to a rate increase to offset the rate increase from the City of Everett. Nonoperating revenue, which is interest income from investments, increased by $3,854. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District’s investments.

Expenses

Operating expenses decreased by $46,317 in 2017. The decrease was mostly due to a decrease of $45,493 in water purchases caused by a decrease in the filtration rate charged by the City of Everett.

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $7,100 in 2017 due to decreasing outstanding loan balances through 2017 as the District paid down its debt. No new borrowings occurred in 2017.

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

Capital Contributions decreased by $213,576 in 2017.

Change in Net Position

The District recorded growth in their net position in 2017, reflecting the fact that total revenues exceeded expenses.

**Analysis of Overall Financial Condition**

The District’s financial condition improved in 2017 with adequate liquid assets and positive operating cash flow.

**Capital Assets**

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

Capital assets activity for the year ended December 31, 2017 was as follows:

Balance Balance

12/31/17 12/31/16 Change

Land $ 99,147 $ 99,147 $ -

Utility Plant 11,419,112 11,419,112 -

Equipment 115,682 73,966 41,716

Intangibles 89,763 89,763 -

Accumulated Depreciation (3,358,508) (3,149,239) (209,269)

Total Capital Assets, Net $ 8,365,196 $ 8,532,749 $ (167,553)

See Note 3 for more information regarding capital assets.

**Long-Term Debt**

At December 31, 2017, the District had total Public Works Trust Fund and Drinking Water State Revolving Fund loans outstanding of $944,114, and total United States Department of Agriculture loans outstanding of $3,396,025. The total long-term debt of the District decreased by $293,490 during 2017 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

2017

ASSETS

Current Assets

Cash & Cash Equivalents $ 1,009,661

Accrued Interest Receivable 858

Assessments Receivable - Friar Creek (Current Portion) 10,343

Receivables (Net):

Customer Accounts Receivable 102,981

Restricted Assets:

Cash & Cash Equivalents 229,484

Accrued Interest Receivable 938

Inventories 31,317

Prepayments 11,432

Total Current Assets $ 1,397,014

Noncurrent Assets

Assessments Receivable - Friar Creek (Less Current Portion) $ 339,390

Restricted Assets:

U.L.I.D. Assessments Receivable 7,401

Capital Assets Not Being Depreciated

Land and Land Rights 99,147

Capital Assets Being Depreciated

Plant 11,419,112

Equipment 115,682

Intangibles 89,763

Less Accumulated Depreciation (3,358,508)

Total Noncurrent Assets $ 8,711,987

Total Assets $ 10,109,001

2017

LIABILITIES

Current Liabilities

Accounts Payable $ 38,302

Accrued Wages 6,851

Accrued Interest Payable 3,629

Current Portion of Long-Term Debt 297,451

Developer Maintenance Bond Payable 19,739

Payables from Restricted Assets:

Accrued Interest Payable - USDA Loans 72,855

Total Current Liabilities $ 438,827

Noncurrent Liabilities

Department of Agriculture Loans (Less Current Portion) $ 3,304,131

Public Works Trust Fund Loans (Less Current Portion) 738,555

Vested Benefits 15,004

Total Noncurrent Liabilities $ 4,057,690

Total Liabilities $ 4,496,517

NET POSITION

Net Investment in Capital Assets $ 4,005,320

Restricted for Debt Service 164,968

Unrestricted 1,442,196

Total Net Position $ 5,612,484

2017

Operating Revenues

Water Sales $ 1,244,297

Local Facility Charges 7,000

Penalties 12,930

Miscellaneous Revenue 4,143

Total Operating Revenues $ 1,268,370

Operating Expenses

Water Purchases $ 144,679

Labor Costs 171,337

Payroll Taxes & Benefits 57,264

System Maintenance and Supplies 28,058

Other Operating Expenses 21,494

Depreciation Expense 209,269

Business Taxes 64,011

General & Administrative Expenses 113,838

Total Operating Expenses $ 809,950

Operating Income (Loss) $ 458,420

Nonoperating Revenues (Expenses)

Interest on Investments $ 26,835

Interest Expense (160,711)

Total Nonoperating Revenues (Expenses) $ (133,876)

Income Before Contributions $ 324,544

Capital Contributions 35,324

Change in Net Position $ 359,868

Total Net Position, January 1 5,252,616

Total Net Position, December 31 $ 5,612,484

2017

Cash Flows From Operating Activities

Cash Received From Customers $ 1,273,759

Cash Paid to Suppliers (400,923)

Cash Paid to Employees (210,490)

Net Cash Provided by Operating Activities $ 662,346

Cash Flows From Capital & Related

Financing Activities

Acquisition and Construction of Capital Assets $ (41,715)

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 (87,931)

Interest Paid on Long-Term Debt (163,996)

Capital Contributions 53,356

Developer & Other Deposits (25,494)

Net Cash (Used) by Capital

& Related Financing Activities $ (471,339)

Cash Flows From Investing Activities

Interest Received on Investments $ 26,302

Net Cash Provided by Investing Activities $ 26,302

Net Increase in Cash & Cash Equivalents $ 217,309

Cash & Cash Equivalents at Beginning of Year 1,021,836

Cash & Cash Equivalents at End of Year $ 1,239,145

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers $ -

2017

Reconciliation of Net Operating Income

to Net Cash Provided by Operating Activities

Net Operating Income (Loss) $ 458,420

Adjustments to Reconcile Net Operating

Income to Net Cash Provided by

Operating Activities

Depreciation $ 209,269

Change in Assets & Liabilities:

(Increase) Decrease in Customer Accounts Receivable 5,388

(Increase) Decrease in Prepayments (528)

(Increase) Decrease in Inventories (4,134)

Increase (Decrease) in Accounts Payable (11,041)

Increase (Decrease) in Vested Benefits 4,972

Total Adjustments $ 203,926

Net Cash Provided by Operating Activities $ 662,346

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

a. Reporting Entity

Highland Water District is a municipal water district governed by an elected 3 member board. The District operates principally as a purveyor of water in Snohomish County, Washington. The District was formed effective April 1, 1998 under the authority of Highland Water District Resolution No. 98-001, after the Snohomish County Canvassing Board certified that the special election held March 10, 1998 overwhelmingly voted for the formation of Highland Water District. The District merged with the Friar Creek Water Users Association on January 9, 2003. As part of the merger agreement, the properties in the Friar Creek Water Users Association will bear the total expense for, and repayment of, the U.S. Department of Agriculture Rural Development loan to Highland Water District for the new system and additional fire protection. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end. All activities of the District are accounted for within a single proprietary (enterprise) fund.

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

c. Cash and Cash Equivalents

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

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

d. Capital Assets

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

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

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

See Note 3.

e. Restricted Funds

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

f. Receivables

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

g. Inventories

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

h. Investments

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

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

i. Compensated Absences

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

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.

12/31/17

Petty Cash Fund $ 402

Bank Deposit Accounts - FDIC Insured 240,118

Cash on Deposit with Snohomish

County Treasurer 60,885

Investment in Local Governmental

Investment Pool (LGIP) 937,740

Total Cash & Investments $ 1,239,145

Credit risk - As of December 31, 2017, the District’s investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSPO).

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

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

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

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

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

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

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

**Investments Measured at Fair Value**

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

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

At December 31, 2017, the District had the following investments measured at fair value:

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

(Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

Beginning Ending

Balance Increase Decrease Balance

Capital assets not being depreciated:

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

Total capital assets not

being depreciated 99,147 - - 99,147

Capital assets being depreciated:

Plant 11,419,112 - - 11,419,112

Equipment 73,966 41,716 - 115,682

Intangibles 89,763 - - 89,763

Total capital assets being

depreciated 11,582,841 41,716 - 11,624,557

Less accumulated depreciation for:

Plant 3,039,685 193,588 - 3,233,273

Equipment 70,253 3,385 - 73,638

Intangibles 39,301 12,296 - 51,597

Total accumulated

depreciation 3,149,239 209,269 - 3,358,508

Total capital assets being

depreciated, net 8,433,602 (167,553) - 8,266,049

TOTAL CAPITAL

ASSETS, NET $ 8,532,749 $ (167,553) $ - $ 8,365,196

NOTE 4 - CONSTRUCTION IN PROGRESS

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

Project Expended Required

Authorization to 12/31/17 Committed Future Financing

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

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

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

NOTE 5 - LONG-TERM DEBT

a. Department of Agriculture Loans

The District has entered into agreements with the United States Department of Agriculture to receive the following loans:

2017

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. $ 253,962

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. 225,227

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. 119,579

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. 2,797,255

$ 3,396,023

The annual requirements to amortize all Department of Agriculture loans outstanding as of December 31, 2017, including interest, are as follows:

Principal Interest Total

2018 $ 91,892 $ 148,445 $ 240,337

2019 96,038 144,299 240,337

2020 100,372 139,965 240,337

2021 104,903 135,434 240,337

2022 109,641 130,696 240,337

2023 - 2027 465,820 586,996 1,052,816

2028 - 2032 431,102 486,213 917,315

2033 - 2037 503,030 381,136 884,166

2038 - 2042 533,942 273,813 807,755

2043 - 2047 657,467 150,288 807,755

2048 - 2049 301,816 19,334 321,150

$ 3,396,023 $ 2,596,619 $ 5,992,642

NOTE 5 - LONG-TERM DEBT (Continued)

b. Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund loans:

2017

2000 loan - payable at $4,931 annually through

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

Original debt: $124,430 for main replacement $ 14,793

2000 loan - payable at $8,644 annually through

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

Original debt: $229,755 for main replacement 25,933

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 368,929

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 123,697

2005 loan - payable at $14,122 annually through

the year 2025, plus interest at 2% per annum

Original debt: $362,093 for main replacement 112,976

2005 loan - payable at $30,197 annually through

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

Original debt: $573,750 for Reservoir 2 241,579

$ 887,907

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2017, including interest, are as follows:

Principal Interest Total

2018 $ 149,352 $ 6,134 $ 155,486

2019 149,352 5,176 154,528

2020 149,352 4,217 153,569

2021 135,776 3,258 139,034

2022 135,776 2,368 138,144

2023 - 2025 168,299 2,866 171,165

$ 887,907 $ 24,019 $ 911,926

NOTE 5 - 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 $ 56,207

The annual requirements to amortize the Drinking Water State Revolving Fund loan outstanding as of December 31, 2017, including interest, are as follows:

Principal Interest Total

2018 $ 56,207 $ 2,248 $ 58,455

$ 56,207 $ 2,248 $ 58,455

d. Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

Balance Balance Due Within

1/1/17 Additions Reductions 12/31/17 One Year

U.S. Department of

Agriculture Loans $ 3,483,954 $ - $ 87,931 $ 3,396,023 $ 91,892

Public Works Trust

Fund Loans 1,037,259 - 149,352 887,907 149,352

Drinking Water

State Revolving

Fund Loan 112,414 - 56,207 56,207 56,207

Compensated

Absences 10,032 4,972 - 15,004 -

Total Long-Term

Liabilities $ 4,643,659 $ 4,972 $ 293,490 $ 4,355,141 $ 297,451

NOTE 6 - PENSION PLAN

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

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

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

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

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

Effective January 1, 2017, the District made pension contributions to the Pension Trust fund, a defined benefit pension plan, on the behalf of all three covered employees at the rate of $0.75 per hour for the first 2,080 hours. In addition to the $0.75 per hour contributed by the District, the covered employees contributed $1.00 per hour on a pre-tax basis from their pay. The District’s total contributions to the Trust Fund were $4,215 in 2017, $4,680 in 2016, and $4,680 in 2015. The District contributed 100% of the required amount in each of these years. There is no unfunded liability on the District’s part. The collective bargaining agreement covered the period of January 1, 2015 through December 31, 2017. The District has entered into a new collective bargaining agreement that covers January 1, 2018 through December 31, 2020.

As of January 1, 2016, the actuarial value of the assets in the Pension Trust fund was $37,692,694,000, the value of the liabilities was $41,074,199,000 and the funded ratio was 91.7%. The market value of the fund on December 31, 2016 was $38,112,445,020. As of December 31, 2016, the asset allocation of the fund’s assets were as follow: 41% Stocks, 24.1% Investment grade debt instruments, 10.2% High-yield debt instruments, 13.1% Real Estate, 11.6% Other.

NOTE 7 - RISK MANAGEMENT

The District is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. Enduris was formed July 10, 1987 pursuant to the provisions of

NOTE 7 - RISK MANAGEMENT (Continued)

Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW. Two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2017, there are 540 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, cyber and automobile physical damage to insured vehicles. Liability coverage limit is $20 million per occurrence and property coverage limit is $1 billion per occurrence. Enduris offers crime coverage up to a limit of $1 million per occurrence.

Since Enduris is a cooperative program, there is a joint liability among the participating members.

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

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

NOTE 7 - RISK MANAGEMENT (Continued)

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, 2015, 2016, and 2017, the District had no claims in excess of their insurance coverage.

NOTE 8 - USE OF ESTIMATES

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

SUPPLEMENTARY INFORMATION

