



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report **Public Utility District No. 1 of Asotin County**

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

Published January 21, 2016

Report No. 1015959





Washington State Auditor's Office

January 21, 2016

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Asotin County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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

**Public Utility District No. 1 of Asotin County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Asotin County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2015. As discussed in Note 13 to the financial statements, during the year ended December 31, 2014, the District implemented Governmental Accounting Standards Board *Statement No. 69, Government Combinations and Disposals of Government Operations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'X'.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 14, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Asotin County January 1, 2014 through December 31, 2014

Board of Commissioners
Public Utility District No. 1 of Asotin County
Clarkston, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Asotin County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Asotin County, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 13 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 69, Government Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

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 11 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 14, 2015

FINANCIAL SECTION

Public Utility District No. 1 of Asotin County January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

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

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

Management Discussion and Analysis

The following Management Discussion and Analysis is designed to provide an overview of the Asotin County Public Utility District's (District) financial activities for the year ended December 31, 2014. This discussion should be read in conjunction with the District's financial statements and notes to the financial statements.

Basic Financial Statements

The Statement of Net Position presents the District's assets and liabilities, with the difference between the two reported as net position. The Statement of Net Position provides information about the nature and amount of investment in resources (assets), and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses. The Statement of Revenue, Expenses and Changes in Fund Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flow provides information about the District's cash receipts and payments from operations, as well as funds provided in investing and financing activities. The notes to the financial statements provide additional information that is essential to fully understanding the figures provided in the financial statements.

Financial Analysis and Summary

The District's overall financial condition remains stable. The District has been very careful with the resources that have been provided by rate revenue because there is very little growth potential projected for revenues from new customers. The reduction of costs in a number of areas have provided revenue stability for the District and rate stability for customers while allowing the District to meet its obligations and provide for capital improvement. Rates for sewer services increased 10% in January 2014 to provide for increased operational costs due to the \$15.22 million upgrade of the City of Clarkston Wastewater Treatment Plant. A financial analysis, completed in 2012, stated that the District should consider a water utility rate increase of 5% after 2014. A 4.5% increase in the water consumptive was planned for January of 2015.

The District has a comprehensive plan to improve and upgrade their water system at approximately \$1 million per year. This plan is possible because significant amounts of debt have been retired and the combined revenues between the water and wastewater system will be adequate to cover identified improvements.

During 2014, the District's operating revenues were \$4,614,160. The major source of revenue for the District is metered water sales and sewer charges. The major source of non-operating revenues is provided by miscellaneous income and account collection fees. Operating revenue increased \$162,213 (or 3.64%) from 2013 operating revenue.

In 2014, the District's operating expenses were \$4,653,198. Operating Expenses in 2014 increased \$654,548 (or 16.37%) from 2013. The increase in operating expenses is primarily attributed to an increase in depreciation expense, capital improvement projects undertaken and the addition of personnel.

The net utility operating loss before non-operating revenues and expenses was (\$39,038) as compared to net utility income of \$453,297 in 2013. The net utility operating loss was due to an

increase in activity related to capital improvement. The largest source of non-operating expense is interest on long-term debt.

The change in net position after non-operating revenues and expenses was \$1,975,743 in 2014 as compared to \$591,942 in 2013. The large increase in the change in net position was directly related to the assumption of ownership of the Port Wilma Water System located in Whitman County. The Port of Wilma Water System provided \$1,857,340 in capital contributions from the transfer of ownership to the District in March 2014.

Condensed Comparative Financial Information *(In thousands)*

	2014	2013	Change
Current Assets	\$2,893	\$2,489	\$404
Restricted Assets	42	42	0
Noncurrent Assets	1	1	0
Capital Assets, net of depreciation	18,360	16,726	1,634
<i>Total Assets</i>	<u>\$21,296</u>	<u>\$19,258</u>	<u>\$2,038</u>
Current Liabilities	\$640	\$475	\$165
Payables from Restricted Assets	417	520	(103)
<i>Total Liabilities</i>	<u>\$1,057</u>	<u>\$995</u>	<u>\$62</u>
Net Investment in Capital Assets	\$17,840	\$16,102	\$1,738
Restricted	42	42	0
Unrestricted	2,357	2,119	238
<i>Total Net Position</i>	<u>\$20,239</u>	<u>\$18,263</u>	<u>\$1,976</u>
Operating Revenues	\$4,614	\$4,452	\$162
Non-Operating Revenues	2	2	0
<i>Total Revenues</i>	<u>\$4,616</u>	<u>\$4,454</u>	<u>\$162</u>
Operating Expenses	\$4,653	\$3,999	\$654
Non-operating Expenses	12	12	0
<i>Total Expenses</i>	<u>\$4,665</u>	<u>\$4,011</u>	<u>\$654</u>
Income before Contributions, Extraordinary Items	(\$48)	\$444	(\$492)
Special Items – Port of Wilma Transfer	\$1,857	0	\$1,857
Capital Contributions – Grants	167	148	19
<i>Total Special Items and Capital Contributions</i>	<u>\$2,024</u>	<u>\$148</u>	<u>\$1,876</u>
Change in Net Position	\$1,976	\$592	\$1,384
Net position, end of year	\$20,239	\$18,263	\$1,976

Capital Assets

The District's total capital assets as of December 31, 2014 were \$18.36 million, net of depreciation. Funds for capital construction are provided for through a combination of installation charges and cash flow from revenues. In 2014 the District purchased and placed in to service \$939,602 worth of assets and assumed ownership of the Port of Wilma Water System valued at \$1,857,340 for a total of \$2,796,942 assets added in 2014. In 2013, the District placed in to service \$1,114,586 worth of assets. See Note 3 of the accompanying notes to the financial statements for further detail related to Capital Asset activity.

Current Liabilities

Total Current Liabilities as of December 31, 2014 were \$640,244 as compared to \$474,972 in 2013, an increase of \$145,272 (or 30.59%). A portion of total liabilities is the Current Portion of Long-Term Debt in the amount of \$103,396 which is payable in 2015.

Long-term Debt Activity

At year-end the District long term-debt obligation included a low interest 2000 Public Works Trust Fund loan used to fund water system capital improvements and a contractual property purchase agreement. At year-end the total of the capital improvement and property loans was \$520,374 as compared to \$623,770 in 2013. Debt was reduced \$103,396 in 2014.

Funds for payment of Long-term Debt are provided for from the cash flow from revenues. See Note 5 of the accompanying notes to the financial statements for further detail related to Long Term Debt Activity.

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	2014
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$1,567,827
General Fund Investments	221,404
Certificates of Deposit	450,000
Equipment Replacement Fund	274,098
Accounts Receivable	327,865
Plant Materials & Supplies	51,385
Restricted Assets:	
2000 PWTf Sinking Fund	42,334
TOTAL CURRENT ASSETS	2,934,913
Noncurrent Assets:	
Workers Compensation Deposit	1,548
Capital Assets Not Being Depreciated	
Land	107,813
Construction Work in Progress	0
Capital Assets Being Depreciated	
Organization	970
Structures & Improvements	1,164,670
Infrastructure	26,625,968
Equipment	1,736,854
Less Accumulated Depreciation	(11,276,208)
Total Capital Assets (Net)	18,360,067
TOTAL NONCURRENT ASSETS	18,361,615
TOTAL ASSETS	\$21,296,528

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	2014
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	180,884
Wages Payable	34,413
Customer Deposits	89,719
Accrued Taxes and Expenses	229,627
Accrued Interest Expense	2,205
Current Portion of Long-Term Debt	103,396
TOTAL CURRENT LIABILITIES	640,244
Noncurrent Liabilities:	
Payables from Restricted Assets	
Contracts Payable	50,000
2000 Public Works Trust Fund	470,374
Current Portion of Long-Term Debt	(103,396)
TOTAL NONCURRENT LIABILITIES	416,978
TOTAL LIABILITIES	1,057,222
<u>NET POSITION</u>	
Net Investment in Capital Assets	17,839,693
Restricted	42,334
Unrestricted	2,357,279
TOTAL NET POSITION	\$20,239,306

The accompanying notes are an integral part of these financial statements

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2014**

	<u>2014</u>
OPERATING REVENUES	
Metered and Wastewater Sales	\$4,383,625
Other Operating Revenues	230,535
Total Operating Revenue	<u>4,614,160</u>
OPERATING EXPENSES	
Operation Expense	
General Operations	1,243,549
Power Purchased for Resale	13,289
Cost of Energy	279,305
Maintenance	522,397
Customer Services	329,149
General Administration	892,099
Depreciation	1,162,965
Excise and B&O Taxes	210,445
Total Operating Expenses	<u>4,653,198</u>
OPERATING INCOME (LOSS)	<u>(39,038)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	2,408
Gain (Loss) on Sale and/or Disposition Property	0
Interest Expense on Long-Term Debt	(11,728)
Total Nonoperating Revenues (Expenses)	<u>(9,320)</u>
INCOME BEFORE CONTRIBUTIONS, TRANSFERS, SPECIAL AND EXTRAORDINARY ITEMS	(48,358)
SPECIAL ITEMS	
Port of Wilma Water System Assumption	1,857,340
CAPITAL CONTRIBUTIONS	
Watershed Planning Unit Grants	166,761
CHANGE IN NET POSITION	1,975,743
TOTAL NET POSITION, January 1, 2014	<u>18,263,563</u>
TOTAL NET POSITION, December 31, 2014	<u>\$20,239,306</u>

The accompanying notes are an integral part of these financial statements

**PUBLIC UTILITY DISTRICT NO.1 OF ASOTIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	4,617,491
Payments to Suppliers	(1,573,846)
Payments to Employees	(1,581,105)
	<u>\$1,462,540</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from Grant Funding	166,761
	<u>\$166,761</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(939,602)
Construction Work In Process	0
Principal Paid on Revenue Bonds and Long Term Debt	(103,396)
Capital Contribution	0
Internal Activity - Amortization of Debt Discount	0
Proceeds from the Sale of an Asset	0
Interest Paid on Revenue Bonds and Long Term Debt	(11,728)
	<u>(1,054,726)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(178,364)
Reinvested Interest Income	0
Proceeds from Sale and Maturities of Investments	0
Interest and Dividends on Investments	2,408
	<u>(175,956)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(175,956)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>398,619</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>\$1,169,208</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$1,567,827</u>

The accompanying notes are an integral part of these financial statements

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Noncash Investing, Financing and Capital Activities	
Capital Assets Donated – Port of Wilma Water System	1,857,340
Utility Operating Income	(\$39,038)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,162,965
Disposition of Assets	
Changes In Assets and Liabilities:	
Accounts Receivable	3,331
Plant Materials and Supplies	(4,968)
Warrants Payable	183,424
Accounts Payable	132,219
Wages Payable	1,335
Accrued Taxes and Expenses	23,272
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$1,462,540</u>

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Asotin County conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements).

In June 2011 GASB approved Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

Entity. Public Utility District No. 1 of Asotin County is a municipal corporation and provides residential and commercial water service, wastewater service and limited electrical service within Asotin County, Washington. The District was formed in 1984 and began operation in April, 1987. A three-member board governs the District. As required by GAAP, management has considered all potential component units in defining the reporting entity. The District has no component units.

Use of Estimates. Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. The use of estimates affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

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 utilizes the full-accrual basis of accounting where revenues are recognized when earned, and expenses are recognized when incurred. The District uses the following fund type:

Proprietary Fund Type

Enterprise Fund – An enterprise fund is used to account for the operations of the water utility which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (including depreciation) of providing services be financed or recovered primarily through user charges. GASB 33 now requires that capital contributions to proprietary funds be recognized as revenues, effective for financial statement periods beginning after June 15, 2000. Therefore, this statement reflects this change for the period commencing January 1, 2002.

The District's financial statements include the financial position and results of operations of all operations that the District manages. There are no organizations or funds that the District has control over, or to which the District contributes resources that are not included in the District's financial statements.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a District's principal ongoing operations. The principal operating revenues of the district are charges to customers for water service. The District also recognizes as operating revenue charges to customers for wastewater service. Operating expenses for the District include system operations and maintenance services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance. The District uses the Uniform System of Accounts for Class A Water Utilities (1984) of the National Association of Regulatory Utility Commissioners.

Investments.

As required by state law, all investments of the District are obligations of the U.S. Government, the State of Washington Local Government Investment Pool, banker's acceptance, or deposits with a bank approved by the Public Deposit Protection Commission. A detailed listing is shown in Note 2: Deposits & Investments.

Restricted Assets and Liabilities. In accordance with certain related agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. The current portion of related liabilities is shown as "*Payables from Current Restricted Assets*". Specific debt reserve requirements are described in Note 5: Long-Term Debt.

Restricted funds currently include:

2000 P WTF Annual Payment Fund	\$42,334
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Receivables. Accounts receivable includes current balances due on utility services billed and other receivables. An allowance for uncollectible accounts is provided based upon historical collection experience. The basis for Unbilled Accounts Receivable is accounts that were billed in January 2015 for service that was provided in December 2014.

Accounts receivable as of December 31, 2014, are as follows:

Utility Service	\$259,865
Unbilled Accounts Receivable	75,000
Allowance for Uncollectible Accounts	<u>(7,000)</u>
Total	<u>\$327,865</u>

Plant Materials and Supplies (Inventory). Plant materials and supplies are valued at the first-in, first-out average cost which approximates the market value.

Compensated Absences. The District recognizes benefits as earned and records unpaid leave for compensated absences as an expense and liability when incurred. Personal Leave pay, which may be accumulated up to a maximum of 1,200 hours, is payable upon resignation, retirement or death.

Cash and Cash Equivalents. For purposes of the statement of cash flows, the District considers as cash equivalent and has included all District cash accounts and certificates of deposit with an original maturity of three months or less. Investments in the State of Washington Local Government Investment Pool and Restricted Investments are not included as cash equivalents.

2. DEPOSITS AND INVESTMENTS

Deposits

The District's deposits and certificates are entirely covered by the Federal Depository Insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

The District's investments are categorized to give an indication of risk assumed at year-end as either insured investments, such as, certificates of deposit and amounts invested with the State of Washington Local Government Investment Pool.

Proprietary Fund Type	<u>Insured</u>	<u>LGIP</u>	<u>Combined</u>
Restricted Investments	\$ 0	\$ 42,334	\$ 42,334
General Fund Investments	<u>450,000</u>	<u>495,502</u>	<u>945,502</u>
Total	<u>\$ 450,000</u>	<u>\$ 537,836</u>	<u>\$ 987,836</u>

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to \$250,000 and by the PDPC for amounts over \$250,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of

the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured. Custodial risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. Of the District's total position of \$2,555,213 in 2014, \$0 is exposed to custodial risk because the investments are held by the District's brokerage firm, which is also the counterparty in those particular securities. The District has no derivatives.

3. CAPITAL ASSETS

Capital Assets are defined by the District as assets with initial individual cost of more than \$1,000.00 and an estimated useful life in excess of 3 years. Utility plant in service and other assets are recorded at cost. Donations by developers are recorded at appraised value. Net interest expense on construction loans is capitalized as a cost of the utility plant. Utility plan activity for the year ended December 31, 2014 was as follows:

CAPITAL ASSETS	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant not being depreciated:				
Land	\$107,813			\$107,813
Construction in Progress	<u>\$ 0</u>			<u>\$ 0</u>
Total Utility Plant not being depreciated	\$107,813			\$107,813
Utility Plant being depreciated:				
Organizational and franchise costs	\$970			\$970
Buildings and Improvements	\$1,164,670			\$1,164,670
Wells, distribution system and infrastructure	\$23,843,593	\$2,782,375		\$26,625,968
Equipment	<u>\$ 1,768,362</u>	<u>\$ 14,567</u>	<u>(\$ 46,075)</u>	<u>\$ 1,736,854</u>
Total utility plant being depreciated	\$26,777,595	\$2,796,942	(\$ 46,075)	\$29,528,462
CAPITAL ASSETS (Depreciation)	Beginning Balance	Increase	Decrease	Ending Balance
Organizational and franchise costs	(\$884)	(\$4)		(\$888)
Buildings and Improvements	(\$535,220)	(\$28,247)		(\$563,467)
Wells, distribution system and infrastructure	(\$7,892,878)	(\$1,001,962)		(\$8,894,840)
Equipment	<u>(\$1,730,335)</u>	<u>(\$ 132,752)</u>	\$ 46,075	<u>(\$1,817,012)</u>
Total accumulated depreciation	<u>(\$10,159,317)</u>	<u>(\$1,162,965)</u>	<u>\$ 46,075</u>	<u>(\$11,276,207)</u>
Total Utility Plant, Net	\$16,726,091	\$1,633,977		\$18,360,068

Depreciation is computed on the straight-line method over the estimated useful lives of the asset as follows:

	<u>Useful Life</u>
Organizational and franchise costs	5-50 years
Buildings and improvements	10-40 years
Wells and distribution system	25-50 years
Equipment	3+ years

The original cost of utility plant retired or otherwise disposed of is removed from the plant account: accumulated depreciation is charged with the accumulated depreciation relating to the asset sold: and the net gain or loss on disposal is credited or charged to income. The gain (loss) from disposition of utility property account is maintained so that the transactions and details underlying each gain or loss are readily identifiable.

4. CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects that have been authorized. Currently there are no capital improvement projects in progress.

5. LONG-TERM DEBT

Long-term debt at December 31, 2014, is comprised of the following:

2000 Public Works Trust Fund

The Washington State Department of Community Development provided a loan, not to exceed \$1,620,000, to finance distribution system improvements, well upgrade, reservoir painting and SCADA upgrades. The District received advances in the amount of \$1,458,000, which represents 90% of the approved loan. The loan will be repaid annually over 20 years at an interest rate of 3%.

\$ 470,374

2008 Contracts Payable – Operations Facility

This promissory note provides for the purchase of property and storage Facilities for use as an operations facility. The price of the property and facility was \$220,000. A down payment of \$20,000 was made with the remaining principal balance to be paid over an 8 year period with an interest rate of 5.5%. Loan payments began in 2009.

\$ 50,000

Aggregate long-term debt
Current portion of long-term debt
Long-term debt due after one year

\$ 520,374
(103,396)
\$ 416,978

A summary of changes in long-term debt is as follows:

	Balance <u>1-1-14</u>	Debt <u>Issued</u>	Principal <u>Repayment</u>	Interest <u>Payment</u>	Balance <u>12-31-14</u>
2000 Public Works Trust Fund	548,770	0	78,396	5,488	470,374
2008 Contracts Payable	<u>75,000</u>	<u>0</u>	<u>25,000</u>	<u>6,240</u>	<u>50,000</u>
Total Long-Term Debt	<u>\$623,770</u>	<u>\$ 0</u>	<u>\$ 103,396</u>	<u>\$ 11,728</u>	<u>\$520,374</u>

Long-term Debt Maturities. The annual requirements to amortize all long-term debt outstanding as of December 31, 2014 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Payment</u>
2015	103,396	10,940	114,336
2016	103,396	10,160	113,556
2017	78,396	3,136	81,532
2018	78,396	2,352	80,748
2019	78,396	1,568	79,964
2020	78,395	783	<u>79,178</u>
Principal & Interest			\$ 549,314
Less: Interest Included			<u>28,940</u>
Aggregate long-term debt			<u>\$ 520,374</u>

6. SHORT-TERM DEBT

The District had no short-term debt.

7. CAPITAL LEASE

The District had no capital lease arrangements.

8. RETIREMENT PLAN

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

All of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually. The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to but not yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Non-vested	101,191
Total	368,272

In March 1995, the District authorized the participation of its full-time employees in the Washington Public Employee's Retirement System (PERS). This is a statewide local government retirement system administered by the Department of Retirement System, under a cost sharing multiple-employer public employee retirement plan.

During 1995, assets from the District's Defined Benefit Plan amounting to \$124,603 were used to provide service credit for all employees from the later of April 1987 or the employee's date of employment up through March 1995. The balance of the Defined Benefit Plan Assets of \$19,175 was used to fund the employer's share of prior service credit. The District has entered into an agreement with PERS to fund the balance of the employer's share of prior service cost amounting to \$159,695 over 15 years at \$887 per month with no interest. Final payment of the prior service cost concluded in 2010.

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with

investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

The District's covered payroll for year ending December 31, 2014, was \$1,013,332. The District's total current-year payroll for all employees was \$1,088,692. Both the District and the employees made the required contributions. The District's required contributions for the year ending December 31, 2014 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$ 0.00	\$ 91,236	\$ 0.00
2013	\$ 0.00	\$ 76,844	\$ 0.00
2012	\$ 0.00	\$ 63,432	\$ 0.00

9. PROPERTY TAXES

The District did not levy property taxes for 2014.

10. RISK MANAGEMENT

Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management service to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements.

The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2014 there were 19, 18, and 12 members in the Liability, Property, and Health & Welfare pools, respectively. The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled "PURMS Joint Self-Insurance Agreement" (SIA).

Liability Risk Pool

The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula. Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the Designated Liability Pool Balance. In addition, Liability Assessments are levied at any time during the year that the actual Liability Pool Balance becomes \$500,000 less than the Designated Liability Pool Balance.

For 2014, the Designated Liability Pool Balance was \$3,000,000. As a result, during 2014, the Liability Pool maintained cash reserves between \$2,500,000 and \$3,000,000 to pay for operating expenses and liability claims. The Liability Coverage Limit was \$1,000,000 per occurrence as of December 31, 2014.

As of December 31, 2014 there were 77 known incidents or unresolved Liability Claims pending against one or members or former members of the Liability Pool. The total risk posed by these claims to such members and to the Liability Pool itself is unknown but the reserves set by the Administrator for these claims were \$248,738.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, the Property Pool has had a self-insured retention (or Property coverage Limit) of \$250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2014, the amount of the Excess Property Insurance was \$200 million, with excess coverage attaching at the \$250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

As of December 31, 2014 there were 5 known property claims pending from members of the property pool. The total risk posed by these claims to such members and to the Property Pool itself is unknown and can only be estimated. The reserves set by the Administrator for these claims were \$41,000.

Health & Welfare Risk Pool

PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health & Welfare Risk Pool (H&W Pool) in accordance with the terms of the SIA and the terms of each member's respective coverage booklet provided to its employees. The H&W Pool was established as one of PURMS' risk pools effective March 31, 2000.

Under the H&W assessment formula, each month, each member of the H&W Pool is assessed for (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees; and (b) for such member's share of Shared H&W Costs. Shared H&W Costs are administrative expenses incurred by the H&W Pool, premiums for stop-loss insurance, PPO charges, and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two different stop-loss points. The first is established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its members. For 2010 the H&W Pool Individual Stop Loss Point was \$250,000 per employee and the H&W Pool Aggregate Stop Loss Point was \$16,054,348 for the combined H&W Claims Costs of the employees of members of the H&W Pool.

As of December 31, 2014 reserves of \$330,609, \$170,972 and \$32,519 for prescription drug, dental and vision benefits respectively was set aside by the Administrator of the pool to cover eight (8) weeks of program expenses.

Each of PURMS risk pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools. Bi-annually, the State Risk Manager performs its own audit of PURMS' risk pools.

There has been no reduction in insurance coverage from the previous year and there have been no settlements in excess of the District's insurance coverage in any of the three preceding years.

11. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The District had no violations of finance-related legal or contractual provisions.

12. OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The District does not provide post employment benefit plans to its employees.

13. OTHER DISCLOSURES

Accounting and Reporting Changes

The District implemented GASB 69, Government Combinations and Disposals of Government Operations on January 1, 2014. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement defines the types of transactions referred to as mergers, acquisitions and transfers of operations and provides accounting and reporting guidance on these transactions.

Special Item – Transfer of Operations

On March 13, 2014 the District assumed ownership of the Port of Wilma Water System from the Port of Whitman County. An agreement to transfer the system was established in August of 2012. The agreement obligated the Port of Whitman County to upgrade the Port of Wilma Water System to District standards and specifications. Once this obligation was fulfilled, ownership of the Water System was transferred to the District. The primary reason for the combination was that the Port of Whitman County did not have the expertise or certified staff to properly operate and manage the Port of Wilma water system.

The District did not provide funds to purchase the system, nor did the District assume any debt. All assets associated with the water system were transferred to the District. Property in the Port of Wilma belongs to the United States Army Corps of Engineers with an easement provided to locate and operate the water system. The Port of Wilma water system supports 30 commercial and industrial water customers. A waterline intertie was established between the Port and the District in 2004.

As of the date of transfer, the following items were transferred:

	Carrying Values
Transferred assets (net)	
Wells Distribution System and Infrastructure	1,857,340
Equipment	-
Total capital assets	<u>1,857,340</u>
Net position of Port of Wilma	
Water System	
Net investment in capital assets	1,857,340
Total Net position	<u>1,857,340</u>

The Port of Whitman County reports on the Cash Basis of accounting. The District obtained the historical purchase price and calculated depreciation expense using the City's straight line depreciation method to arrive at the carrying value of the transferred assets.

As a result of these transactions, the District recognized a special item in the governmental statement of activities in the amount of \$1,857,340

Subsequent Events

There were no subsequent events to report.

Prior Period Adjustments

There were no prior period adjustments to prior period fund equity.

Significant Revenue or Expenditure Changes

There were no significant revenue or expenditure changes.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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

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