

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Snohomish County Startup Water  
District**

Audit Period  
**January 1, 2012 through December 31, 2012**

**Report No. 1010704**

Issue Date  
**November 12, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

November 12, 2013

Board of Commissioners  
Snohomish County Startup Water District  
Startup, Washington

***Report on Financial Statements***

Please find attached our report on the Snohomish County Startup Water District's financial statements.

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

Sincerely,

**TROY KELLEY  
STATE AUDITOR**

# Table of Contents

## **Snohomish County Startup Water District January 1, 2012 through December 31, 2012**

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 <i>Government Auditing Standards</i> .....	1
Independent Auditor's Report on Financial Statements.....	3
Financial Section.....	6

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*

**Snohomish County Startup Water District  
January 1, 2012 through December 31, 2012**

Board of Commissioners  
Snohomish County Startup Water District  
Startup, 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 the Snohomish County Startup Water District, Snohomish County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 16, 2013.

***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.



**TROY KELLEY**  
STATE AUDITOR

October 16, 2013

# Independent Auditor's Report on Financial Statements

## **Snohomish County Startup Water District January 1, 2012 through December 31, 2012**

Board of Commissioners  
Snohomish County Startup Water District  
Startup, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the Snohomish County Startup Water District, Snohomish County, Washington, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 6.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 and results of operations of the Snohomish County Startup Water District, for the year ended December 31, 2012, on the basis of accounting described in Note 1.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


### ***Purpose of this Report***

The report is intended for the information and use of the management and the Board of Commissioners of the District. 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.

## ***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013 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.

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

**TROY KELLEY**  
STATE AUDITOR

October 16, 2013



# Financial Section

## **Snohomish County Startup Water District January 1, 2012 through December 31, 2012**

### ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2012  
Notes to Financial Statements – 2012

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		401 Water District
<b>Beginning Cash and Investments</b>		
30810	Beg Fund Bal-Reserved	4,583
30880	Beg Fund Bal-Unreserved	64,782
38880/58880	Prior Period Adjustments, net	0
<b>Operating Revenues</b>		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	31,938
340	Charges for Goods and Services	216,341
350	Fines & Penalties	0
360	Miscellaneous Revenues	335
Total Operating Revenues:		248,614
<b>Operating Expenditures</b>		
530	Utilities And Environment	119,336
598	Intergovernmental Payments	0
Total Operating Expenditures:		119,336
Net Operating Increase (Decrease):		129,278
<b>Nonoperating Revenues</b>		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		0
<b>Nonoperating Expenditures</b>		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	56,875
594-595	Capital Expenditures	30,990
597	Transfers-Out	0
Total Nonoperating Expenditures:		87,865
Increase (Decrease) in Cash and Investments		41,413
<b>Ending Cash and Investments</b>		
50810	End Fund Bal-Reserved	9,828
50880	End Fund Balance-Unreserved	100,950

The accompanying notes are an integral part of this Statement.

## Notes to the Financial Statements

### Note 1 - Summary of Significant Accounting Policies

The Startup Water District reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The Startup Water District was incorporated in 1956 and operates under the laws of the state of Washington applicable to a Special Purpose District. The Startup Water District is a general purpose government and provides water service only. The Startup Water District uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

#### A. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the Startup Water District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America..

#### B. Deposits

The Startup Water District's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

#### C. Risk Management

Startup Water District insures, as a member of a joint insurance pool, through CIAW. CIAW insures Property, Equipment Breakdown, General Liability, Wrongful Acts Liability and Crime Coverage. There were no claims outstanding. Financial Statements for CIAW can be obtained through their website at CIAW.US.

#### D. Cash

It is the Startup Water District's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments of fund resources and uses arising from cash transactions.

**Note 2 – Debt Service Requirements**

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the Startup Water District and summarizes the Startup Water District's debt transactions for year ended December 31, 2012.

The debt service requirements for general obligation bonds, revenue bonds and other debt including both principle and interest, are as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds</u>	<u>Other Debt</u>	<u>Total Debt</u>
2013	\$	\$ 49,140	\$ 17,964	\$ 67,104
2014		49,140	17,900	67,040
2015		49,140	17,836	67,976
2016		49,140	17,774	66,914
2017		49,140	17,710	66,850
2018 - 2022		245,700	36,141	281,841
2023 - 2027		245,700	30,186	275,886
2028 - 2032		245,700	2,402	248,102
2033 - 2037		245,700		245,700
2038 - 2049		589,680		589,680
	_____	_____	_____	_____
TOTALS	\$ <u>          </u>	\$1,818,180	\$ 157,913	\$ <u>1,977,093</u>

**Note 3 - COMPLIANCE AND ACCOUTABILITY**

There have been no material violations of finance-related legal or contractual provisions.

**Note 4 - RESERVED FUND BALANCE**

The Reserved Fund Balance represents amounts that are contractually required as part of the District's loan agreement with the USDA. The reserve will grow at the rate of \$4,914/yr for 10 years.

**Note 5 - INVESTMENTS**

The Startup Water District's investments are held by Snohomish County as the agent for Startup Water District and invested in the Local Government Investment Pool. Investments as of 12/31/12 were \$4,592 and are included in cash balances.

**Snohomish County Startup Water District**

Schedule of Liabilities

For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
<b>Revenue Obligations</b>								
	263.82	Emergency Loan PWTF (1)	7/1/2026	17,764	0	1,184	58234	16,580
	263.82	Precon Waterline Replace (2)	7/1/2026	47,795	0	3,186	58234	44,609
	263.82	Precon Waterline Replace PWTF (3)	7/1/2028	40,629	0	2,390	58234	38,239
	263.82	USDA - Replace Water Line	12/1/2049	1,043,534	0	13,921	58234	1,029,613
	263.82	ARRA Capitalization Grant	10/1/2016	2,905,660	7,548	2,861,750	58234	51,458
		<b>Total Revenue Obligations:</b>		<b>4,055,382</b>	<b>7,548</b>	<b>2,882,431</b>		<b>1,180,499</b>
		<b>Total Liabilities:</b>		<b>4,055,382</b>	<b>7,548</b>	<b>2,882,431</b>		<b>1,180,499</b>



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

**State Auditor**  
**Chief of Staff**  
**Director of Performance and State Audit**  
**Director of Local Audit**  
**Deputy Director of State Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Troy Kelley**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Kelly Collins, CPA**  
**Jan M. Jutte, CPA, CGFM**  
**Sadie Armijo**  
**Mark Rapozo, CPA**  
**Barb Hinton**  
**Thomas Shapley**  
**Mike Murphy**  
**Mary Leider**  
**(360) 902-0370**  
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